

UNITED STATES BANKRUPTCY COURT  
EASTERN DISTRICT OF MICHIGAN  
SOUTHERN DIVISION

IN RE: CITY OF DETROIT, . Docket No. 13-53846  
MICHIGAN, .  
 . Detroit, Michigan  
 . September 5, 2014  
Debtor. . 8:30 a.m.  
 . . . . .

TRIAL RE. CONFIRMATION OF CHAPTER 9 PLAN  
BEFORE THE HONORABLE STEVEN W. RHODES  
UNITED STATES BANKRUPTCY COURT JUDGE

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1 THE CLERK: All rise. Court is now in session.  
2 You may be seated. Court will call the matter of City of  
3 Detroit, 13-53846.

4 THE COURT: Good morning. It appears everyone is  
5 here. Let's proceed.

6 MR. SMITH: Your Honor, Syncora has no further  
7 questions for Mr. Hill.

8 THE COURT: Okay. Any redirect?

9 MS. O'GORMAN: Your Honor, Macomb County has some  
10 questions for him.

11 THE COURT: Oh, I'm sorry.

12 MS. O'GORMAN: Just a few minutes.

13 THE COURT: My apologies to you.

14 MS. O'GORMAN: Again, your Honor. My name is Debra  
15 O'Gorman. I represent Macomb County through its public works  
16 commissioner and the MIDDD entity. Good morning.

17 JOHN HILL, CITY'S WITNESS, PREVIOUSLY SWORN

18 CROSS-EXAMINATION

19 BY MS. O'GORMAN:

20 Q Good morning, Mr. Hill.

21 A Good morning.

22 Q Now, during your direct examination yesterday, you spoke  
23 about some revenues, expenditures, and projection, and those  
24 all related to the city's general fund; correct?

25 A Yes.

26 Q And none of those revenues, expenses, or projections had

1 anything to do with the DWSD; correct?

2 A They did not.

3 Q And the DWSD finances are not part of the city general  
4 fund; correct?

5 A It's not part of the general fund.

6 Q And there are, in fact, separate water funds and separate  
7 sewer funds in which the DWSD maintains its revenues and pays  
8 its expenses; correct?

9 A That's true.

10 Q Now, you testified at your deposition that you could  
11 recall two meetings that you attended at which DWSD issues  
12 were discussed, and one related to the transfer of certain  
13 bank accounts; is that correct?

14 A Yes.

15 Q And that was so that DWSD bank accounts could be  
16 maintained separately from city bank accounts; correct?

17 A Yes.

18 Q And you're not the CFO of the DWSD; correct?

19 A No, I'm not.

20 Q And that's Ms. Nicole Bateson; correct?

21 A Yes.

22 Q And it's true, isn't it, that the DWSD is prohibited from  
23 using any of its funds for general city purposes; correct?

24 A That's true.

25 Q And DWSD is what we would call a closed system; is that

1 correct?

2 A If you define "closed system."

3 Q Meaning that the revenues of the DWSD can only be used  
4 for expenses of the DWSD.

5 A Yeah. It's an enterprise-type fund, yes.

6 Q And you also testified that another meeting you attended  
7 at which DWSD issues were discussed related to a briefing on  
8 the section of the plan regarding the DWSD financial  
9 projections; correct?

10 A Yes.

11 Q And the purpose of that briefing was not to solicit your  
12 input on that portion of the plan; correct?

13 A No, it was not.

14 Q And you had no role in the development or analysis of the  
15 financial projections related to the DWSD that are contained  
16 in the plan?

17 A I did not have a role in that.

18 Q And do you remember when we looked at Exhibit 38, which  
19 was the consensus conference report?

20 A Yes.

21 Q Now, did anybody from the DWSD attend that conference?

22 A No.

23 Q And DWSD revenues are not included at all in that  
24 conference. They were not part of the discussion; correct?

25 A No, they were not.

1 Q So there was no effort made by the revenue consensus  
2 conference to predict the revenues of the DWSD; correct?

3 A No, there was not.

4 MS. O'GORMAN: Okay. That's all I have. Thank you.

5 THE WITNESS: Thank you.

6 THE COURT: Now I need to ask any further cross-  
7 examination of the witness? All right. Redirect.

8 MR. STEWART: Sorry. All thumbs today.

9 REDIRECT EXAMINATION

10 BY MR. STEWART:

11 Q Good morning, Mr. Hill.

12 A Good morning.

13 Q On cross-examination you were asked a number of questions  
14 comparing the situation in Detroit to that in Washington?

15 A Yes.

16 Q How do the two situations compare?

17 A Well, they were similar in some ways but obviously  
18 different in others. The situation in D.C., the Congress  
19 acted very, very quickly, within probably two to three years  
20 of the first sign of any financial crisis in the District,  
21 and so the deficits never went as deeply as the deficits have  
22 gone here. And there were a number of -- and also the  
23 Congress has exclusive jurisdiction over Washington, D.C.  
24 The citizens of Washington don't have a vote in the Congress  
25 of the United States so that the ability to act without

1 political repercussions from people who elect you was also a  
2 factor that helped the Congress to move very, very quickly.

3 Q What percentage in those days of the population of  
4 Washington was below the federal poverty line?

5 A It was a substantial percentage. At the time, if I  
6 remember correctly, the unemployment rate in certain parts of  
7 the city east of the river, which were the most impoverished  
8 areas or less resourced areas, if you will, was approaching  
9 30 percent, so it was significant, but also there are other  
10 parts of the city that were very wealthy. The Medicaid roll  
11 is about a third of the citizens of the District of Columbia  
12 received Medicaid. The actual poverty numbers I don't have  
13 at the top of my head.

14 Q In fact, wasn't it true then as now Washington, D.C., has  
15 the highest average per capita income of any city in the  
16 United States?

17 A It is, definitely is.

18 Q And in Detroit what percentage of the population, if you  
19 know, today is below the federal poverty line?

20 A I don't know the -- I know that we looked at the exact  
21 percentages as part of the revenue conference, but I don't  
22 have that number in my head right now.

23 Q Okay. Now, let me move to a different subject.

24 Yesterday Mr. Smith asked you this question, except I have to  
25 find the question. He asked you whether there'd been a

1 successful strategy in the District of Columbia to raise  
2 taxes. Do you remember being asked that question?

3 A Yes, I do.

4 Q Would it be a successful strategy in Detroit to raise  
5 taxes?

6 MR. HACKNEY: Your Honor, I'd interpose an objection  
7 here. This is straying into the area of the lay opinion  
8 testimony. This is a specialized subject that a lay witness  
9 can't offer opinion testimony on. And if it was an expert  
10 opinion that they wanted, it was not disclosed in his report,  
11 and he's said he's not an expert on taxes even though he does  
12 work with tax policy, so I think this is an important line to  
13 draw here, your Honor, and I interpose an objection.

14 MR. STEWART: They opened the door, Judge. I have  
15 the transcript from yesterday.

16 THE COURT: I agree. The objection is overruled.

17 THE WITNESS: One thing that certainly happens with  
18 taxing, it's not always clear whether or not increasing tax  
19 rates will actually produce greater revenues. As a matter of  
20 fact, in some cases increasing tax rates actually reduces in  
21 lower taxes, and it's called getting into what's commonly  
22 known as a death spiral. And Detroit, which is a highly  
23 taxed jurisdiction and also one that is obviously suffering  
24 from a long-term economic crisis, I would not at all think  
25 that raising the tax rates at this time would be an



1 appropriate strategy here. In the District, although the  
2 top, you know, tax brackets were raised, there was also  
3 relief at the lower end, and now the District is looking to  
4 lower taxes across the board. And remember it's a state and  
5 a city, so it has state taxes. It has property taxes. It  
6 has income taxes. It has any tax that you would have in  
7 another jurisdiction, and so they also lowered the -- they  
8 also lowered the sales tax as well, and so I think it would  
9 be very difficult to imagine a scenario where the city would  
10 benefit from raising taxes.

11 BY MR. STEWART:

12 Q You were asked yesterday by Mr. Smith about tax  
13 collections.

14 MR. STEWART: Can we put up 620, please, and could  
15 we blow up, if we could, Steve, lines 2 and 3 or 1, 2, and 3?  
16 And you don't need to -- that's sufficient.

17 BY MR. STEWART:

18 Q You remember, Mr. Hill, yesterday I questioned you about  
19 Exhibit 620.

20 A Yes.

21 Q And you remember what 620 is.

22 A Yes.

23 Q What does Exhibit 620 show us is planned as a result of  
24 increased tax collections as a consequence of the  
25 restructuring and reinvestment initiatives?

1 A It shows that there are increases in both -- increases in  
2 taxes as a result of an increased collection rate as well as  
3 increases as a result of being able to collect past due  
4 taxes.

5 Q And the forecast here, what is the total amount of  
6 increased revenue that is to come from increased collections  
7 of current and past due taxes?

8 A The total for two thousand -- the total for 2015 for  
9 increased collection rate would be 12.6 million, 4.9 million,  
10 and total overall for revenues is 88 million.

11 Q You said \$180 million?

12 A I said 88 million overall for 2015 total revenue.

13 Q Oh, I see. All right. If we look at the far right  
14 column, over the ten years in this forecast, what's the total  
15 amount of additional collections of taxes forecast to occur  
16 from the city's increased collection efforts?

17 A It's 164 million for the ten-year period, 14.7 million  
18 also for the ten-year period.

19 Q That adds up to a hundred and --

20 A Seventy-eight.

21 Q -- seventy-nine million dollars?

22 A Yeah, 79.

23 Q Let's move, if we could, to page -- to Exhibit 38 to page  
24 12 of 14, and Exhibit 38 is the revenue consensus forecast.  
25 Do you remember being asked questions yesterday by Mr. Smith

1 about the -- whether this forecast included or didn't include  
2 delinquent receivables?

3 A Yes.

4 Q Does this page that has several numbers to it set forth  
5 the reasons why the revenue consensus forecast chose to not  
6 look into adding collection of delinquent receivables into  
7 the revenue forecast?

8 A Yes, it does, and you have to -- you have to understand  
9 that when you're budgeting, which means you're really  
10 reserving funds that are going to be expended, it is  
11 important to make sure that until you've actually done the  
12 type of work that would be necessary in order to make sure  
13 that that revenue is more certain that you shouldn't start to  
14 be able to incumber those funds that may or may not exist,  
15 and so what the strategy here was was to look at those  
16 revenues that we are fairly certain will come in as a result  
17 of the revenue conference. If there are actions that need to  
18 be taken that haven't been taken yet to have those revenues  
19 come in, it's really difficult for you to budget against  
20 them. It's not difficult to plan against them, but it's very  
21 difficult to budget against them. And so from being  
22 conservative, we didn't want to put revenues in the budget  
23 that we didn't know were going to come in. It's the same  
24 theory that we used for why we didn't load all of the money  
25 that would be expected to come in from borrowing. You know,

1 we don't know what the exit financing is actually going to be  
2 at the time that we did this, and so to load all of those  
3 revenues and then allow people to spend against them before  
4 they come in is just not a prudent way to handle it.

5 Q Let me direct your attention to the fourth of the bullet  
6 points here on our page. I'm just going to read it aloud. I  
7 assume you can see it on the screen. It says the majority of  
8 the DRMS A/R module balance is fully reserved as the city's  
9 external auditors have determined that the balances owed are  
10 generally uncollectible. First of all, is that the DRMS  
11 system you were telling us about?

12 A That's the -- yeah.

13 Q Okay.

14 A That's DRMS.

15 Q And so what is this saying?

16 A It basically says that although we have records of  
17 accounts receivable that are on our books, the auditors,  
18 after review of those accounts receivable, decided that the  
19 best tack to take would be -- and this was our decision as  
20 well, but it was supported by our auditors -- to reserve  
21 against those, meaning that you would not include in your  
22 CAFR any of the revenue associated with the collection of  
23 those receivables, and so that was a conservative tack to  
24 take.

25 Q Do you know why the external -- and the external auditors

1 here are KPMG?

2 A Yes.

3 Q Do you know why they determined the balances were  
4 generally uncollectible?

5 MR. HACKNEY: Objection, your Honor. There's a  
6 foundational problem. That calls for hearsay.

7 BY MR. STEWART:

8 Q But let me put it this way. Mr. Hill, did you determine  
9 that the balances owed were generally uncollectible?

10 A Yes.

11 Q Why?

12 A For a couple reasons. One, the older some of these  
13 balances get, the harder it is to collect. We have, as I  
14 mentioned before, systems that are not -- that do not  
15 collect -- connect and collect all of the information that's  
16 needed to do these collections. We certainly believe that it  
17 is reasonable to think that as a result of the plan of  
18 adjustment there could -- and the activities that are taking  
19 place supported by the plan that there will be increased  
20 collections, but -- from past due receivables, but it will  
21 take considerable effort to get there, and the systems that  
22 we have don't really help us as much as a new system would.

23 Q Finally, you were asked yesterday by Mr. Smith about the  
24 avenue creditors had to use, the Revised Judicature Act, to  
25 seek collection of amounts owed to them. What would the

1 effect of that be upon the city?

2 MR. HACKNEY: Your Honor, I have to object here.  
3 This is quintessential expert testimony. They've  
4 acknowledged it in the supplemental Saltee report. We have  
5 not opened the door to this testimony by establishing that  
6 he --

7 THE COURT: I want to hear what you have to say, but  
8 I've got to ask you to get --

9 MR. HACKNEY: Sorry.

10 THE COURT: -- nearer to a microphone.

11 MR. HACKNEY: I'm sorry, your Honor. It's that  
12 balance between --

13 THE COURT: Actually, you know what? I'm going  
14 to -- I'm going to let you stay seated --

15 MR. HACKNEY: Okay.

16 THE COURT: -- just to be sure we do --

17 MR. HACKNEY: Yeah.

18 THE COURT: -- get it on the recording.

19 MR. HACKNEY: It's that balance between wanting to  
20 stand and address the Court, not look like the hunchback, and  
21 wanting to be actually heard, so --

22 THE COURT: Well, let's tip that balance in favor of  
23 our record.

24 MR. HACKNEY: Yes, sir. Your Honor, this is an  
25 important objection. Okay. We're crossing over now and

1 asking him to offer an answer to a hypothetical question,  
2 what would happen to the city if you did this. That's the  
3 quintessential type of testimony. It's not appropriate for  
4 lay opinion testimony. It's got to be an expert opinion.  
5 And Mr. Hill did an expert report. He didn't offer an  
6 opinion on this testimony. They've acknowledged that they  
7 think that they need to provide a supplemental report from  
8 Ms. Sallee on this subject, so they've acknowledged it's the  
9 subject of expert testimony. This is the type of evidentiary  
10 back and fill we were very concerned about, and please  
11 remember, your Honor, we took every step we could in  
12 discovery to discover the evidence on this. Mr. Hill was the  
13 30(b)(6) witness of the city with respect to its taxing  
14 capabilities and any studies thereof. We took all of their  
15 experts on this subject, and what we were told time and time  
16 again was no one had studied the question. That's in the  
17 record that we will put before you. It is very unfair, and  
18 it's inconsistent with the rules on opinion testimony to  
19 allow this witness to now come in and offer this type of  
20 testimony in response to Mr. Stewart's question. I would ask  
21 you not to allow this testimony. He's given a -- I'm sorry  
22 to go on, but it's important. You gave him an opportunity to  
23 say why he thought Detroit was different from Washington,  
24 D.C. Understood. Now we're going to go a step much further  
25 than that, and I think it's unfair and inconsistent with the

1 rules.

2 MR. STEWART: Your Honor, once again, this was not  
3 something I asked on direct. This was something that came up  
4 on cross, and we remember he was asked about the Revised  
5 Judicature Act. And let me address one of Mr. Hackney's  
6 points. At the time all those questions were asked, Syncora  
7 went to great lengths to establish that this was not an  
8 expert witness on the subject. Remember, they asked had you  
9 done a study, had you done this, had you done that. So  
10 having established that he wasn't, what were they asking but  
11 for his lay opinion? If they can ask that --

12 THE COURT: Can you give me --

13 MR. STEWART: -- I can ask that.

14 THE COURT: -- an example of one or two of the  
15 questions that you say opened the door for this?

16 MR. STEWART: Yes, your Honor. I have to dig them  
17 out of the rough --

18 THE COURT: All right. Take your time.

19 MR. STEWART: -- of the rough draft that I had, and  
20 I apologize for the delay on this one, your Honor.

21 THE COURT: That's okay.

22 MR. STEWART: And can you -- Dan, can you look, too?  
23 Your Honor, I'm not sure. Do you have the full transcript?  
24 I'm not sure the excerpt --

25 THE COURT: Well, all right. In the alternative,



1 let me suggest this to you.

2 MR. STEWART: Yes.

3 THE COURT: We hold on this question, and you can  
4 research this while I'm asking questions of the witness --

5 MR. STEWART: Yes, your Honor. Let me do that. And  
6 with that, your Honor, I'm finished.

7 THE COURT: -- and we can perhaps be a little more  
8 efficient here.

9 MR. STEWART: Thank you. And with this I'm finished  
10 with my redirect examination.

11 THE COURT: Oh, all right. We can hold -- counsel,  
12 we can hold recross until after my questions. Is that okay?

13 MR. HACKNEY: Oh, absolutely.

14 THE COURT: Okay. Are you familiar with the city's  
15 plan?

16 THE WITNESS: Yes, I am, your Honor.

17 THE COURT: As the CFO of the city, what would you  
18 say are your responsibilities in the city's implementation of  
19 the plan if it is confirmed?

20 THE WITNESS: I believe that I have a number of  
21 different responsibilities in the implementation of the plan.  
22 One of the first responsibilities is to take the plan and  
23 really translate that into documents and processes that the  
24 city can respond to. The plan has built into it basically  
25 three different areas where it is actually making a

1 difference for the city. One is with people and others with  
2 processes and then others with structure. And all three of  
3 those things I believe are needed in order to move Detroit to  
4 a new future so that my responsibility is to make the plan  
5 real by putting it in documents and in systems that can be  
6 acted upon and then also, though, to provide information  
7 to -- accurate, complete, objective information to all of the  
8 parties that have an interest in the plan. I view the -- and  
9 I think some of this -- the way that I'm approaching it comes  
10 from how I viewed the work that we did in Washington, D.C.  
11 Within this plan, there are a number of organizations,  
12 companies, people who are not being paid what they were owed.  
13 No one can argue that question. And the plan also allows the  
14 city to use some of the funds that would have gone to these  
15 other creditors but for the bankruptcy if they were available  
16 to invest in systems, processes, and people in order to  
17 improve the city on a long-term basis and improve outcomes  
18 and also to try to put the city in a place where it would be  
19 able to pay something eventually to these creditors. It's  
20 kind of the way that I boil it down. And I think there is a  
21 fundamental responsibility for the city to be able to report  
22 exactly what those funds are used for and report exactly what  
23 those funds were able to do as a result of being allowed to  
24 spend them, and so that's how I approach my role.

25 It's also to make sure that the mayor and the

1 council, other decision-makers in the city have the  
2 information that they need in order to make real decisions  
3 and not decisions that are based on dated information or  
4 information that isn't complete but decisions that is based  
5 on information that has been analyzed and studied and looked  
6 at, and so the improvements in all of the accounting  
7 processes, including the creation of the financial planning  
8 and analysis group, is to create that capacity within the  
9 city to use information at a much higher level to make these  
10 kinds of business decisions.

11 I've also taken on the responsibility that if  
12 there's a hole now that has to be filled at some point in  
13 terms of either some of the HR processes or other places  
14 within the city, you know, I don't have responsibility for  
15 HR, but I can't get done what I need to do without that  
16 assistance, and so I've had to create that. And so I believe  
17 that we can't let the existing structure stop us from moving  
18 forward in this plan, and so we will -- my responsibility is  
19 to identify all of the impediments associated with  
20 implementing the plan and try to mitigate against those  
21 risks, and that's why I say it's not going to be easy to  
22 implement. If you go -- if you go into this thinking it will  
23 be, I believe that you will fail.

24 THE COURT: That's a good segue to my next question,  
25 which is what challenges do you foresee that you will have in

1 carrying out your responsibilities if this plan is confirmed?

2 THE WITNESS: Well, I think the biggest challenge is  
3 racing against time. In the District, we found that once  
4 there was a perception that the crisis was over, it was very  
5 difficult to get movement, and so we have to move very, very  
6 quickly to put the infrastructure in place so that once --  
7 and try to make sure that that crisis mentality in trying to  
8 get change done continues, so that's one of the problems.

9 The other issue is that this plan calls for a level  
10 of cooperation among a lot of different organizations within  
11 the government and particularly our IT operation. Before  
12 Beth Niblock came in, I had some concern about me being in  
13 charge of IT, I have to tell you, because of my background.  
14 I know things generally, but I am not an IT director. She is  
15 one of the best, so it's getting the resources at the  
16 leadership levels within government that can really make the  
17 difference.

18 The one positive aspect is that, you know, the mayor  
19 actually drove down to Louisville to meet with Beth in the  
20 evening to convince her to come here. That kind of  
21 dedication to go after the right people in the right places  
22 is exactly what I think we need. The work that's been done  
23 by the EM so far to help us with grants management and  
24 setting up the office of the CFO and all of the support that  
25 we've gotten from the contractors and people who are in the

1 city has really given us a head start on a lot of what's in  
2 the plan, and so that also gives me a lot more assurance that  
3 we can do this. So it's the capacity to handle all of this  
4 at the same time, which we're working through, and to be able  
5 to attract the people resources that we will need in order to  
6 lead this effort ultimately.

7 THE COURT: At what point in time do you foresee  
8 that your office's IT structure will be adequate and  
9 sufficient and functional for you to carry out your  
10 responsibilities not only in implementing the plan but  
11 generally for the city?

12 THE WITNESS: Well, I think that -- I think that we  
13 are carrying out those responsibilities now, but it takes a  
14 lot more effort and a lot more time in their work-arounds and  
15 their reconciliations and processes that really aren't very  
16 good, so but --

17 THE COURT: Well, let me rephrase the question then.  
18 When will the IT system allow you the maximum efficiencies in  
19 carrying out your responsibilities?

20 THE WITNESS: Well, the first system that we would  
21 implement is the human resource information system because  
22 that will drive our ability to get people on board more  
23 quickly. It'll drive our ability to meet the demands of the  
24 employees. It'll also drive their interest in staying in  
25 government, and so that's the first system. And shortly

1 after -- not after it's implemented, but shortly after we  
2 start the implementation of that would come the financial  
3 management system, and so our expectation is that anywhere  
4 from 16 to 18 months some of the plans that I've seen so far,  
5 if they work out in the contracts that we're trying to put  
6 together, that we will start to see new information coming  
7 off of new systems. To be safe, I would give myself 20 to 24  
8 months actually.

9 THE WITNESS: Remind me the formal name of the  
10 entity that you were the executive director of in the  
11 District of Columbia?

12 THE WITNESS: It's the D.C. Control Board, but it's  
13 the District of Columbia Financial Responsibility and  
14 Management Assistance Authority is the full name.

15 THE COURT: Okay. Based on your experience with  
16 that authority, what advice would you give to those who are  
17 going to organize and staff the financial control board for  
18 the City of Detroit?

19 THE WITNESS: Well, one thing that's already built  
20 into the legislation is a close working relationship with the  
21 office of the CFO, which I think is absolutely critical, I  
22 think working with the city, the mayor, and the council to  
23 establish at the very start the expectations for the type of  
24 reporting that is to occur in a regular basis. I would also  
25 tell them don't hesitate to act because it's -- I believe

1 that we'll be able to keep up with the financial  
2 responsibility -- the Financial Review Commission, but I also  
3 believe that that pressure will help to keep things on track  
4 and that it will be their responsibility to help make sure  
5 that things are on track.

6           The other thing that the control board did that I  
7 think was very helpful to the city is that -- and it's kind  
8 of the relationship that I now have with the financial  
9 advisory board that's currently in place. These are leaders  
10 who have expertise that I rely on now in order to help with  
11 some of the decisions that need to be made, so they're  
12 experts in finance. They're experts in IT. They're experts  
13 in human resources. And the decisions that I made around  
14 deciding to cancel a particular HR contract or having  
15 discussions around the restructuring of the CFO's office, I  
16 met with them and talked to them and picked their brains and  
17 asked questions, and so I think being a part of the -- and  
18 providing that expertise to the city is a major part of the  
19 work that they would do.

20           THE COURT: Let me ask you to focus specifically on  
21 staffing for the financial review board. What would you  
22 recommend to the financial review commission in terms of how  
23 it should staff itself in its work?

24           THE WITNESS: Well, I believe that the staff  
25 currently that's anticipated, which is -- I think it's

1 \$900,000 which has been allocated to the treasury to do  
2 that -- is just not adequate. I understand that it's a  
3 different situation than in Washington, D.C.; however, I  
4 think you need people who are going to be able to help with,  
5 especially in the early years, the analysis of what's really  
6 happening, and you can't do that by just getting a report  
7 from an entity within the city. You really have to have  
8 people who will dig into that report and help the board to  
9 understand what's really in there and what may not be. It's  
10 not that I'm going to try to be putting forward or whoever  
11 would be in this position would try to put forward reports  
12 that would be on the surface misleading, but there are things  
13 that you may overlook, you know. If there's one thing I know  
14 is that we're going to make mistakes as we move forward in  
15 this process. We're just human. But having other eyes that  
16 are at a staff level within the board I think is going to be  
17 critical, so I would look at the size of the staff.

18 I'd also err more heavily on professional expertise  
19 than political expertise. You know, this is -- I understand  
20 the importance of politics in helping to solve these issues,  
21 but these are tough issues that require people who have deep  
22 skills, and so the more of those individuals that you can  
23 have on the board versus political people I think the better.  
24 And, again, this is just my opinion for what it's worth.

25 THE COURT: What is your sense about the extent to



1 which others in city administration, especially upper  
2 management, share your view about the value of the Financial  
3 Review Commission in helping the city's recovery?

4 THE WITNESS: I don't think that others in the  
5 administration have experienced it in the way that I have, so  
6 I don't -- I have had discussions with many of the senior  
7 staff about it, and I've told them the importance of it.  
8 I've even, you know, testified before the financial advisory  
9 board about the role that I think is important, so it's a  
10 role that I respect, and it's a role that I think is a very  
11 important role. I don't think a lot of other staff -- I know  
12 that Beth Niblock and Gary Brown -- I know they understand  
13 the role. I know that others will come to understand it as  
14 we move forward and it's seen as something that's valuable,  
15 and that's why having people on the board who can actually  
16 provide that kind of expertise is critical.

17 THE COURT: All right. That's all I have.

18 MR. STEWART: Your Honor, we have found the page  
19 reference, and I only have one copy. I've asked for more to  
20 be brought over of yesterday's transcript regarding the  
21 Revised Judicature Act, and if I could read, if your Honor  
22 would like, the questions that were asked that I was  
23 referring to.

24 THE COURT: Go ahead.

25 MR. STEWART: And it was this. The first question,

1            "You were designated as the city's 30(b) (6)  
2            witness on the issue of tax policy, taxing  
3            capabilities, tax revenue assumptions and  
4            projections and any studies regarding the foregoing;  
5            correct?

6            Answer: Yes.

7            And you also know that the city can increase  
8            property taxes to pay the rates -- to pay judgments  
9            against the city; correct?

10          Answer: I know that's happened, yes.

11          Question: And the state legislature does not  
12          need to approve the tax increases under the Revised  
13          Judicature Act to pay judgments; correct?

14          Yes, I know that.

15          And you know the city has increased property  
16          taxes above statutory maximums in order to pay  
17          judgments against the city?

18          Answer: Yes. That has happened.

19          Question: And there are instances where there  
20          have been judgments in which the city has increased  
21          property taxes in order to pay for them; correct?

22          Answer: Yes.

23          Question: And the city paid those judgments?

24          Yes."

25          So those are the questions I was referring to where

1 cross-examination got into the issue and opened the door for  
2 a tax increase mandated by the Revised Judicature Act.

3 MR. HACKNEY: And, your Honor, if I can respond,  
4 please.

5 THE COURT: Yes, but before you do, may I see that?

6 MR. STEWART: Yes, your Honor.

7 MR. HACKNEY: Your Honor, those were purely factual  
8 questions that were asked about historical events that he was  
9 the designated witness on. That's point one. Point two is  
10 that Mr. Smith also established and limited himself to  
11 establishing on cross-examination that Mr. Hill had not  
12 studied the question of the impact of a tax increase on the  
13 city and that no one else had to his knowledge. And it  
14 cannot open the door to ask someone factual questions about  
15 something and to establish that they haven't studied this  
16 precise subject, that cannot open the door to them now coming  
17 in and rendering an opinion about the subject that they  
18 haven't studied. It's the nail in the coffin of it, your  
19 Honor, and it's a sensitive subject for us, so --

20 THE COURT: All right. Give me just a moment here.  
21 I agree with Syncora that these questions do not open the  
22 door to the proffered question here. Accordingly, the  
23 objection is sustained.

24 MR. STEWART: Thank you, your Honor. We have no  
25 further questions of the witness.

1 THE COURT: Okay. Any recross by anyone?

2 MR. HACKNEY: No, sir.

3 THE COURT: Sir, you are excused. Thank you very  
4 much for your testimony.

5 (Witness excused at 9:12 a.m.)

6 MR. HAMILTON: Good morning, your Honor. Robert  
7 Hamilton of Jones Day. I will be conducting the direct  
8 examination of the city's next witness, which is Charles  
9 Moore, who I call to the stand. Your Honor, while he's  
10 coming to the stand, we have a binder of the exhibits we're  
11 going to be referring to during his deposition. They will  
12 also be on the screen, but the witness may want to refer to  
13 the exhibits as well in hard copy on the stand. We have sets  
14 for your Honor as well. Can we bring them to the Court?

15 THE COURT: Yes, please. Before you sit down,  
16 please raise your right hand.

17 CHARLES MOORE, CITY'S WITNESS, SWORN

18 THE COURT: All right. Please sit down.

19 DIRECT EXAMINATION

20 BY MR. HAMILTON:

21 Q All right. Good morning, Mr. Moore. Can you tell the  
22 Court your full name?

23 A Charles Moore, M-o-o-r-e.

24 Q Mr. Moore, where do you work?

25 A Conway MacKenzie, Inc.

1 Q Have you been retained by the City of Detroit?

2 A Yes. Conway MacKenzie has been retained by the City of  
3 Detroit since January of 2013.

4 Q And what were your -- what was Conway MacKenzie retained  
5 to do?

6 A The primary objectives of the engagement were to  
7 evaluate, develop, negotiate, and implement the short- and  
8 long-term restructuring actions for the City of Detroit as  
9 well as identify revenue enhancement opportunities and cost  
10 reductions to address the structural deficit.

11 Q What is -- who is leading that effort on behalf of Conway  
12 MacKenzie?

13 A I have led the engagement since its beginning.

14 Q What were your responsibilities as the city's operational  
15 restructuring advisor?

16 A As I mentioned, specifically Conway MacKenzie, as the  
17 operational restructuring advisor, has been focused on  
18 identifying the short- and long-term restructuring actions  
19 for the city as well as revenue enhancing opportunities and  
20 cost reduction opportunities.

21 Q What did you do to fulfill those responsibilities?

22 A Conway MacKenzie has worked very closely with employees  
23 of the city as well as other advisors to identify and develop  
24 an extensive restructuring and reinvestment plan that goes  
25 out for ten years.

1 Q Do you have a phrase that you typically refer to that  
2 plan?

3 A Yes. We refer to them generally as the reinvestment  
4 initiatives.

5 Q And what were the reinvestment -- what are the  
6 reinvestment initiatives designed to do?

7 A The reinvestment initiatives contemplate the city  
8 spending approximately \$1.7 billion between now and June 30th  
9 of 2023 along with various revenue initiatives and cost  
10 reduction opportunities, revenue initiatives of approximately  
11 \$483 million and cost reduction opportunities of \$358  
12 million.

13 Q All right. Mr. Moore, I'm going to ask you to provide  
14 some background information about your qualifications to the  
15 Court. First, what I want to ask you about is can you tell  
16 the Court what the firm Conway MacKenzie does?

17 A Yes. Conway MacKenzie is a turnaround restructuring firm  
18 that provides services to organizations and municipalities  
19 and their constituents. We also perform transaction  
20 services, fraud investigations, and litigation support  
21 services.

22 Q When was the firm of Conway MacKenzie established?

23 A The firm was formed in 1987.

24 Q Where is it located?

25 A Our headquarters is located here in the Detroit area,

1 specifically in Birmingham, Michigan, and we have eight other  
2 offices around the country.

3 Q Has the firm of Conway MacKenzie received any recognition  
4 for the quality of the work that it has performed for its  
5 clients?

6 A Yes. Conway MacKenzie has been named an outstanding  
7 turnaround firm by Turnarounds & Workouts magazine every year  
8 since 2000. Conway MacKenzie was also named turnaround firm  
9 of the year in 2011 by the M&A Advisor, and we have numerous  
10 engagement-specific awards that we've received.

11 Q What is your position at Conway MacKenzie now?

12 A I am a senior managing director and shareholder.

13 Q How long have you been at Conway MacKenzie?

14 A Since 2001.

15 Q And how long have you been a senior managing director?

16 A I've been a senior managing director since 2008.

17 Q And do you lead a particular group at Conway MacKenzie?

18 A Yes. I lead our government -- our governmental services  
19 group at Conway MacKenzie.

20 Q What does the bulk of your work involve in connection  
21 with that group?

22 A That is where I spend the bulk of my time, and we provide  
23 services to municipalities, distressed municipalities, as  
24 well as their constituents.

25 Q Mr. Moore, how long have you personally been providing

1 restructuring and turnaround advice to clients?

2 A For 20 years.

3 Q And in connection with providing that advice, have you  
4 had experience with working with business plans and  
5 projections related to business plans?

6 A Yes. Very conservatively speaking, over that 20-year  
7 period, I probably have been involved in the analysis of over  
8 a hundred business plans and financial projections.

9 Q Where did you work before you joined Conway MacKenzie?

10 A I was the chief financial officer for Horizon Technology.

11 Q What business are they in?

12 A That was primarily an automotive supplier. It was a  
13 privately owned business.

14 Q How long were you the -- how long were you the CFO there?

15 A Approximately a year and a half.

16 Q And before you were at Horizon, where were you working?

17 A I was a manager in the management solutions and services  
18 practice at Deloitte & Touche.

19 Q What is your general practice area at Conway MacKenzie?

20 A I focus in on turnaround consulting services, both  
21 financial and operational, to organizations, municipalities,  
22 and their constituents.

23 Q What experience have you developed working in that  
24 practice area?

25 A Well, as part of that role, I typically am involved in



1 all aspects of developing turnaround plans for clients.

2 Q Have you had experience with pension and OPEB matters?

3 A Yes. Specifically, I'm well-versed in defined benefit  
4 pension plans and other post-employment benefits.

5 Q And the other post-employment benefits, does that include  
6 healthcare benefits?

7 A Yes. That's typically referring to retiree healthcare.

8 Q And what experience have you had with respect to that  
9 issue?

10 A I've worked with a number of clients on identifying and  
11 implementing alternative solutions for retiree healthcare as  
12 well as active healthcare plans.

13 Q What experience do you have with providing restructuring  
14 and turnaround advice to distressed municipalities?

15 A I've worked with a number of municipalities throughout my  
16 career.

17 Q And, again, what is the -- the group that you lead at  
18 Conway MacKenzie, what are some of the clients they have --  
19 that they have worked with?

20 A Sure. The client here locally, Detroit Public Schools,  
21 specifically we've worked with DPS on its human resources,  
22 financial information systems as well as its procurement  
23 practices. I was also engaged on behalf of Franklin Funds in  
24 the Stockton, California, Chapter 9 bankruptcy.

25 Q All right. And just so the record is clear, were you

1 personally involved in the work for the Detroit Public  
2 Schools?

3 A Yes, sir.

4 Q And could you describe a little bit more as to what your  
5 involvement was with the Franklin Fund in the Stockton case?

6 A Yes. I was engaged as an expert to -- specifically an  
7 expert in municipal finance related to the analysis of  
8 business plans and financial projections.

9 Q Did you provide expert testimony in the Stockton Chapter  
10 9 case?

11 A Yes, I did.

12 Q Were you qualified as an expert by the Bankruptcy Court  
13 in that Chapter 9 case?

14 A Yes.

15 Q And what was the field that you were qualified as an  
16 expert in in that case?

17 A I believe specifically, as I mentioned, an expert in  
18 municipal financial related to the assessment of business  
19 projection -- or business plans and financial projections.

20 Q Are there any other matters you've worked on that  
21 illustrate your experience in this area of distressed  
22 municipalities?

23 A Yes, numerous others. Just to list a few, I conducted a  
24 very in-depth study of the employee retirement system for the  
25 Commonwealth of Puerto Rico. I also was involved on behalf

1 of National Public Finance Guarantee in the Jefferson County,  
2 Alabama, Chapter 9 bankruptcy. I had worked on behalf of  
3 AFSCME related to the Commonwealth of Puerto Rico, and I have  
4 also worked for Wayne County Circuit Court.

5 Q All right. Now, with respect to Puerto Rico, you  
6 mentioned it twice. With respect to AFSCME, what was your  
7 work with respect to AFSCME in connection with Puerto Rico?  
8 What was the kind of things you were doing?

9 A Yes. Conway MacKenzie was engaged -- actually, AFSCME  
10 was the lead party. The UAW joined in that engagement, and  
11 Conway MacKenzie specifically was engaged to look at various  
12 restructuring actions that the Commonwealth was trying to  
13 take and to assess whether there were other alternatives that  
14 should be considered.

15 Q All right. And did you have occasion also to investigate  
16 the underfunded position of the retirement system in  
17 connection with Puerto Rico?

18 A Yes. That was the first engagement that I mentioned, an  
19 in-depth -- essentially a forensic investigation related to  
20 the employee retirement system, which is a defined benefit  
21 pension plan for the Commonwealth of Puerto Rico.

22 Q Now, with respect to -- I believe you mentioned Jefferson  
23 County. What were you doing and who were you doing it for in  
24 Jefferson County?

25 A Conway MacKenzie was engaged on behalf of National Public

1 Finance Guarantee, one of the monoline insurers for debt that  
2 Jefferson County had, and specifically Conway MacKenzie was  
3 engaged to assist in evaluating plans that Jefferson County  
4 had established as well as assisting National in negotiations  
5 with the county.

6 Q Mr. Moore, are you familiar with the Legislative  
7 Commission on Government Efficiency for the State of  
8 Michigan?

9 A Yes. This is a commission that was formed in 2007. It  
10 was a nine-person commission that was tasked with identifying  
11 ways to make state government more efficient, and I was  
12 appointed to that committee in 2007.

13 Q And you were appointed to that panel to do what?

14 A I was one of the nine members, and I specifically headed  
15 up the procurement and sourcing work group.

16 Q Do you have any licenses or certifications?

17 A Yes, sir.

18 Q Tell the Court what they are.

19 A I am a certified public accountant, a certified  
20 turnaround professional, and certified in financial  
21 forensics.

22 Q And do you participate in any professional associations?

23 A Yes. The Turnaround Management Association where I am  
24 the past president and former member of the board of  
25 directors for the Detroit chapter. I'm also a member of the

1 American Bankruptcy Institute as well as the American  
2 Institute of Certified Public Accountants and the Michigan  
3 Association of Certified Public Accountants.

4 Q Where did you go to college, Mr. Moore?

5 A I received a bachelor of arts degree in accounting from  
6 Michigan State as well as a master's in business  
7 administration in professional accounting also from Michigan  
8 State.

9 Q All right. Now I want to ask you some just general  
10 questions about the reinvestment initiatives and how you went  
11 about developing them. Did you detail those reinvestment  
12 initiatives in a document?

13 A Yes, sir. There is about a 70-page document that  
14 contains all of the detail for this extensive ten-year plan.

15 MR. HAMILTON: Can we bring up Exhibit -- City  
16 Exhibit 108?

17 BY MR. HAMILTON:

18 Q Is this the document that you're referring to, Mr. Moore?

19 A This appears to be the document, yes.

20 Q All right. Now, was an earlier version of this document  
21 attached as an exhibit to the disclosure statement?

22 A Yes, sir. Exhibit I to the fourth amended disclosure  
23 statement.

24 Q All right. Staying with 108, what was the -- do you know  
25 the date of this particular version of the document, what the

1 date is?

2 A Yes, sir. This, I believe, was as of July 2nd, 2014.

3 Q All right. So it was obviously -- this version was  
4 prepared after the exhibit that was attached to the  
5 disclosure statement that was circulated back in May; is that  
6 right?

7 A That's correct.

8 Q What are the -- what is the nature of the differences  
9 between what was attached to the disclosure statement in  
10 Exhibit I and this particular document?

11 A There were fairly minor changes, but some of the changes  
12 included updating the amounts relative to various agreements  
13 that had been reached with employee unions which impacted  
14 wage costs, as well as timing differences for various  
15 initiatives.

16 Q All right. And what does this document contain?

17 A This document contains this extensive ten-year plan that  
18 I mentioned, which has not only investment across a number of  
19 categories such as capital expenditures, fleet, facilities,  
20 information technology, but also revenue initiatives of the  
21 approximately \$483 million that I mentioned as well as cost  
22 reductions of approximately 358 million, and this is split  
23 out in detail by year by department.

24 Q Did you prepare this document?

25 A Yes, sir.

1 Q And did you provide this document to the city and the  
2 emergency manager?

3 A Yes, sir.

4 Q All right.

5 MR. HAMILTON: Your Honor, I would move into  
6 evidence City Exhibit 108.

7 MR. SOTO: No objection, your Honor.

8 THE COURT: It is admitted.

9 (City Exhibit 108 received at 9:29 a.m.)

10 BY MR. HAMILTON:

11 Q Now, Mr. Moore, did you also prepare a -- this is 70  
12 pages; right?

13 A Yes, sir.

14 Q Did you prepare a condensed summary of this 70-page  
15 document?

16 A I did, yes.

17 MR. HAMILTON: Can we bring up City Exhibit 626?

18 BY MR. HAMILTON:

19 Q Is this the seven-page summary that you just referred to?

20 A Yes, it is.

21 Q All right. And what does it contain?

22 A This contains a summary version of all of the information  
23 that's in the 70-page document. The numbers themselves are  
24 all the same, but it is just a summary version of the various  
25 projects and initiatives.

1 Q And did you prepare this document?

2 A Yes, sir.

3 Q And how have you used this document in forming your  
4 opinions?

5 A This document I refer to all the time in order to track  
6 and discuss with the city the various project initiatives  
7 that are included in the restructuring initiatives.

8 Q And, again, so all the numbers that are in Exhibit 626  
9 match up and are the same numbers that are in City Exhibit  
10 108; is that right?

11 A Yes, sir.

12 MR. HAMILTON: Your Honor, I would also move into  
13 evidence City Exhibit 626.

14 MR. SOTO: No objection, your Honor.

15 THE COURT: It is admitted.

16 (City Exhibit 626 received at 9:30 a.m.)

17 BY MR. HAMILTON:

18 Q Mr. Moore, can you provide a general overview of the  
19 reinvestment initiatives that are detailed in these two  
20 exhibits?

21 A Yes. The reinvestment initiatives have actually been  
22 broken out into seven different categories. The categories  
23 are blight initiatives, public safety initiatives, resident  
24 service initiatives, business service initiatives,  
25 organizational efficiency initiatives, management



1 initiatives, and nondepartmental initiatives, which relate  
2 primarily to the 36th District Court.

3 Q Right. And you already did it for the last one. Let's  
4 go through the first six and give a brief one-sentence  
5 description of what each category is. Blight initiatives,  
6 what's that refer to?

7 A Blight initiatives relate to the remediation of primarily  
8 residential blight in the City of Detroit.

9 Q Public safety initiatives.

10 A Public safety initiatives are focused on both the police  
11 department and the fire department to improve overall public  
12 safety for the city.

13 Q And resident service initiatives.

14 A Resident service initiatives are focused on those  
15 departments that are primarily resident facing such as the  
16 Department of Transportation.

17 Q How about business service initiatives?

18 A Business service initiatives are focused on those  
19 departments that interact primarily with businesses such as  
20 the Building Safety Engineering and Environmental Department.

21 Q Organizational efficiency initiatives.

22 A The organizational efficiency initiatives relate to all  
23 of those departments that are served primarily to support  
24 city operations such as finance and general services.

25 Q And then the other one, management initiatives.

1 A The management initiatives relate specifically to the  
2 mayor's office, city council, and the city clerk.

3 Q And then we already -- you already mentioned -- what is  
4 the nondepartmental initiatives?

5 A Yes, sir. Nondepartmental initiatives directly deal with  
6 the 36th District Court.

7 Q Okay. What are the goals that the reinvestment  
8 initiatives that you've detailed in these documents -- what  
9 are the goals that they were designed to achieve?

10 A The primary goals of the reinvestment initiatives are,  
11 one, to substantially improve and provide adequate levels of  
12 services as well as enhance revenue and reduce costs.

13 Q Is there an ultimate goal that you want to try and  
14 achieve by those three measures?

15 A The ultimate goal is really stability within the city,  
16 stability of the population base and providing a platform so  
17 that both resident population as well as business growth can  
18 occur.

19 MR. HAMILTON: Bring up Exhibit -- City Exhibit 579,  
20 which is a document that I believe was introduced into  
21 evidence yesterday.

22 BY MR. HAMILTON:

23 Q Mr. Moore, what is this document? What does it show?

24 A This document shows the total of \$1.7 billion in  
25 expenditures that are contemplated between now and June 30th

1 of 2023. I mentioned that there were various categories of  
2 initiatives such as public safety, resident service. We've  
3 also broken down the initiatives by category of expenditure  
4 type or investment type.

5 Q Can you explain to the Court each of the slices of pie on  
6 this chart?

7 A Yes, sir. I'll start off on the right and work around  
8 clockwise beginning with blight. Blight, as you see, is \$420  
9 million. That specifically relates to residential blight.  
10 Additional operating expenditures are noncapital expenditure-  
11 related expenditures. To put it simply, profit and loss-type  
12 expenditures like increased labor. Fleet reinvestment  
13 relates to not only the fleet for public safety departments  
14 but also other general city departments. Technology  
15 infrastructure relates to the city's backbone of information  
16 technology as well as department-specific technology  
17 investments. And then capital expenditure reinvestment at  
18 the top there of \$225 million relates primarily to facility  
19 improvements. And then the last wedge, which are  
20 reorganization implementation costs, are also P&L types of  
21 items, P&L being profit and loss, but they are really one-  
22 time items associated with implementation of the  
23 expenditures.

24 Q All right. Did you prepare a chart that breaks down the  
25 category of additional operating expenditures a little bit

1 more?

2 A Yes. As you can see, this is 715 million. There is a  
3 chart that breaks that \$715 million down into other  
4 categories.

5 Q Can we bring up City Exhibit Number 580? Is this the  
6 chart you just referred to, Mr. Moore?

7 A Yes, sir.

8 Q What does it show?

9 A This shows for those additional operating expenditures  
10 how they are broken out by the seven different initiatives  
11 that we have in the reinvestment initiatives.

12 Q I haven't totaled it up, but if you total up all those  
13 numbers, are those going to equal the 715.7 million on the  
14 previous chart for --

15 A Yes.

16 Q -- additional operating expenditures?

17 A Yes, sir.

18 Q All right. All right. Can you just generally describe  
19 each of the categories or slices here?

20 A Yes. Again, beginning on the right and moving around  
21 clockwise, public safety, there's approximately \$260 million  
22 in additional operating expenditures that are contemplated  
23 between now and June 30th of 2023, so this is a total amount,  
24 and it's broken out by the departments under there. Police  
25 department is approximately 175 million, and the fire

1 department is approximately 85 million. If you move to the  
2 next categories, resident service, business service, these  
3 are the departments of the city that fall under those  
4 categories. You can see there under resident service the  
5 bulk of that is related to the Department of Transportation,  
6 and when you look at business services, the bulk of that is  
7 related to the Planning and Development Department.  
8 Management is a fairly small amount related to additional  
9 operating expenditures. Administrative support is very  
10 large. When you look at finance and general services along  
11 with HR, those are significant areas for noncapital  
12 investment of the city, and then there are blight-related  
13 expenditures of approximately 20.3 million.

14 Q All right. Now, you have blight as a different category  
15 on the previous chart, as a separate category, and then here  
16 we're breaking down the additional operating expenditures,  
17 and blight appears again. Why is it in both categories?

18 A Sure. The amount that was listed previously is  
19 approximately \$420 million. The total investment in blight  
20 is actually \$440.3 million. However, part of the  
21 expenditures on blight, specifically for using the Hardest  
22 Hit Funds, will involve the addition -- or adding additional  
23 expenditures of approximately \$20.3 million, so the net  
24 amount going towards blight is \$420 million.

25 Q Has the city projected any cost savings that it will

1 achieve by implementing these reinvestment initiatives?

2 A Yes. The city has identified and we've included in the  
3 reinvestment initiatives cost reductions of approximately  
4 \$358 million.

5 MR. HAMILTON: And before we bring that up, your  
6 Honor, I would move --

7 BY MR. HAMILTON:

8 Q Did you prepare Exhibit 580, Mr. Moore?

9 A Yes, sir.

10 MR. HAMILTON: I would move Exhibit 580 into  
11 evidence, your Honor.

12 MR. SOTO: Do you want to move 579 as well?

13 MR. HAMILTON: I believe 579 is already in.

14 MR. SOTO: Was in for demonstrative purposes?

15 MR. HAMILTON: Yes.

16 MR. SOTO: If it's in for demonstrative purposes, we  
17 have no objection.

18 THE COURT: It is admitted.

19 (City Exhibit 580 received at 9:38 a.m.)

20 MR. HAMILTON: Can we bring up Exhibit 582?

21 BY MR. HAMILTON:

22 Q Mr. Moore, did you prepare this chart?

23 A Yes, sir.

24 Q What does it show?

25 A This is the breakout by major department of the \$358

1 million in cost savings.

2 Q All right. Take, for instance, the fire department. How  
3 do you get \$60 million of savings?

4 A There are multiple initiatives; however, the two primary  
5 items that drive that are, first of all, as attrition  
6 occurs -- and certainly when you look at the makeup of the  
7 workforce there are a fair number of fire fighters that are  
8 eligible to retire over the next five to ten years -- they  
9 are replaced with lower paid employees as they move up the  
10 scale as well as the initiative that is underway within the  
11 fire department to make it into a multi-functioning  
12 department, which it has not been in the past, and those two  
13 initiatives are two of the biggest drivers of the cost  
14 reductions within the fire department.

15 Q Did you prepare a schedule that provides more detail on  
16 each one of these slices of cost savings?

17 A Yes, which was admitted just previously. I believe it  
18 was 626. That seven-page exhibit does list out those. There  
19 is also a separate chart which is in my expert report showing  
20 the various cost reductions.

21 MR. HAMILTON: Can we bring up City Exhibit 575?  
22 Blow it up, just the top portion, a little bit so we can read  
23 it. Thanks.

24 BY MR. HAMILTON:

25 Q What is this document, Mr. Moore?

1 A This is the document included in my expert report that  
2 lays out the detail for those departments that we just  
3 discussed and the specific projects driving the \$358 million  
4 in cost reductions.

5 Q And did you prepare this detail?

6 A Yes, sir.

7 Q And did you provide this to the city in connection with  
8 the reinvestment initiatives that are included in the plan?

9 A Yes.

10 MR. HAMILTON: Your Honor, I would move Exhibit 575  
11 into evidence.

12 MR. SOTO: No objection, your Honor.

13 THE COURT: It is admitted.

14 (City Exhibit 575 received at 9:40 a.m.)

15 BY MR. HAMILTON:

16 Q Can you provide the Court with a general description of  
17 the types of cost reductions and efficiencies that are  
18 included in these projections?

19 A A significant amount of the cost reductions relate to  
20 labor and process improvements. From a labor standpoint, as  
21 the city implements new technology as it refines its  
22 processes, there is the expectation that primarily through  
23 attrition the city will be able to in certain areas reduce  
24 the number of workers required. Secondly, as process  
25 improvements occur and technology implementation happens,



1   there is also an expectation that perhaps some of the  
2   employees will be replaced with employees with different  
3   qualifications. The cost reductions, therefore, involve  
4   reductions in the number of people as well as changes in  
5   processes as to how the departments operate.

6               MR. HAMILTON: Can we bring up City Exhibit 54? Can  
7   we blow up the beginning of that so we can see it?

8   BY MR. HAMILTON:

9   Q   Mr. Moore, do you recognize this document?

10   A   Yes, sir.

11   Q   What is it?

12   A   This takes that list of cost reductions, the \$358  
13   million, and associates the costs necessary to be incurred in  
14   order to realize those cost reductions, so the \$358 million  
15   that the city contemplates realizing requires certain  
16   expenditures to occur, and that is what the schedule shows by  
17   major cost reduction initiative.

18   Q   All right.

19               MR. HAMILTON: And so if we could blow up the  
20   bottom -- I think it's the right-hand corner.

21   BY MR. HAMILTON:

22   Q   That'll give you the total. What is the total of the  
23   costs that are associated with achieving the cost savings  
24   initiatives?

25   A   I think you want to move to the next page.

1 Q Next page.

2 A Another page. Keep going to the very, very end.

3 Q There we go. No.

4 A Yes. This is it here. As you can see, on the bottom  
5 right the 358.2 are those cost reductions and there's  
6 approximately \$96.7 million in costs necessary to achieve  
7 those cost reductions.

8 Q All right. And are these the projections that you  
9 provided to the city in connection with the reinvestment  
10 initiatives?

11 A Yes.

12 Q And did you prepare these projections?

13 A Yes.

14 MR. HAMILTON: Your Honor, I would introduce City  
15 Exhibit 54 into evidence.

16 MR. SOTO: No objection, your Honor.

17 THE COURT: It is admitted.

18 (City Exhibit 54 received at 9:43 a.m.)

19 BY MR. HAMILTON:

20 Q All right. As a result of implementing the restructuring  
21 initiatives if the plan is approved, does the city -- has the  
22 city projected any increase in revenues that result from  
23 those initiatives?

24 A Yes. The city projects that it will realize through  
25 various revenue initiatives approximately \$483 million in

1 additional revenue during this time period through June 30th  
2 of 2023.

3 Q All right.

4 MR. HAMILTON: Can you bring up, please, Exhibit  
5 581, which, I believe, your Honor, was already introduced  
6 into evidence yesterday?

7 BY MR. HAMILTON:

8 Q What does this chart show, Mr. Moore?

9 A This takes the \$483 million in revenue initiatives and  
10 breaks it out by major department.

11 Q So if we take, for instance, the slice of the pie that  
12 refers to blight, 72.3 million, do you see that?

13 A Yes, sir.

14 Q Where does this money come from?

15 A Specifically on blight, these are additional sources of  
16 revenue or cash that have been identified in order to  
17 facilitate the investment in blight. Specifically here there  
18 are two sources. \$52.3 million relate to Hardest Hit Funds  
19 through the U.S. government TARP program, and \$20 million has  
20 been identified as a release from a fire escrow fund.

21 Q All right. Now, you pulled those numbers out pretty  
22 quickly. You have a lot of numbers in your head. Did you  
23 prepare a document that provides the detail on revenue  
24 increases that result from the restructuring initiatives?

25 A Yes, I did, as an exhibit in my expert report.

1 MR. HAMILTON: Can we bring up Exhibit 576? Just  
2 blow up the first part of it.

3 BY MR. HAMILTON:

4 Q Mr. Moore, what is this document?

5 A This lays out the detail behind -- for each of those  
6 major departments what the major projects are that drive the  
7 \$483 million in revenue initiatives.

8 Q Can you describe for the Court the types of revenue  
9 increases that are detailed in this document?

10 A Yes. Our focus on revenue initiatives was to identify  
11 any and all area that the city could increase revenue as part  
12 of its existing operation. As an example, that could include  
13 recovering fees for services that are performed where  
14 currently fees are not charged. It may involve fee  
15 increases. It may involve additional grant revenue being  
16 identified, so any area that the city could obtain additional  
17 revenue to support its operation.

18 Q For instance, did you consider improved collection rates?

19 A Yes, sir.

20 Q All right. And increased grant revenue?

21 A Yes.

22 Q All right. And did you also include in here the possible  
23 sale of excess assets?

24 A Yes.

25 Q All right. And did you prepare this detail in this

1 document?

2 A Yes, sir.

3 Q And did you provide it to the city in connection with the  
4 reinvestment initiatives?

5 A Yes.

6 MR. HAMILTON: Your Honor, I would move this exhibit  
7 into evidence, Exhibit 576.

8 MR. SOTO: No objection, your Honor.

9 THE COURT: It is admitted.

10 (City Exhibit 576 received at 9:46 a.m.)

11 MR. HAMILTON: Could we bring up City Exhibit 55?  
12 Could you blow up the top portion of it so we can read it?

13 BY MR. HAMILTON:

14 Q Mr. Moore, do you recognize this document?

15 A Yes, I do.

16 Q All right.

17 MR. HAMILTON: I believe, your Honor, 55 was  
18 introduced into evidence yesterday.

19 BY MR. HAMILTON:

20 Q Mr. Moore, can you describe what is in this document?

21 A Yes. Similar to the cost reductions, with the revenue  
22 initiatives there are also costs associated with being able  
23 to realize those, and so this breaks out by department the  
24 costs that are necessary in order to realize the \$483 million  
25 in revenue initiatives.

1 MR. HAMILTON: I am advised, your Honor -- let me  
2 finish the foundation.

3 BY MR. HAMILTON:

4 Q Did you prepare this document?

5 A Yes, sir.

6 Q And did you provide it to the city in connection with the  
7 restructuring initiatives?

8 A Yes.

9 MR. HAMILTON: And I'm advised by Mr. Stewart, your  
10 Honor, that the entire document was not introduced into  
11 evidence yesterday, just a portion. I would introduce the  
12 entire document into evidence.

13 MR. SOTO: I have no objection.

14 THE COURT: It is admitted.

15 (City Exhibit 55 received at 9:48 a.m.)

16 MR. HAMILTON: Will you bring up Exhibit 577? I  
17 believe this document was introduced into evidence as well  
18 yesterday.

19 BY MR. HAMILTON:

20 Q Mr. Moore, did you prepare this document?

21 A Yes.

22 Q Can you tell the Court what it shows?

23 A What this shows is of the -- all of the reinvestment  
24 initiatives, which is the \$1.7 billion in expenditures along  
25 with the revenue initiatives of 483 million and the cost

1 reductions of 358 million, the amount by year for all of  
2 those reinvestment initiatives. Expenditures are at the top,  
3 revenue initiatives and cost reductions are on the bottom,  
4 and the net expenditure is the numerical amount shown at the  
5 very top by year.

6 Q All right. And if you total up all those numbers on the  
7 very top row, what number do you get?

8 A Approximately \$877 million, which is the net  
9 reinvestment.

10 Q And by "net reinvestment," what do you mean? Can you  
11 explain?

12 A Sure. That is the \$1.7 billion in expenditures less the  
13 \$483 million in added revenue and \$358 million in cost  
14 reductions.

15 Q All right. Now, this chart shows that the largest  
16 reinvestment expenditures are in years 2015 and '16; is that  
17 right?

18 A Yes, sir.

19 Q All right. Can you tell the Court why that is?

20 A There are multiple reasons. If you look at the various  
21 categories in the color coding, you notice that blight is  
22 very high in 2015; that is, the goal is to make as much  
23 progress on blight as quickly as possible. In addition to  
24 that, there are other initiatives, namely on the information  
25 technology side, that are very important to implement as

1 quickly as possible, so there are a substantial number of  
2 initiatives that are key for the city to be implemented as  
3 quickly as possible, and that drives the higher net need in  
4 the earlier years.

5 Q All right. All right. Now I want to switch to providing  
6 some determination of -- or provide the Court with  
7 information on how you were going to determine we could pay  
8 for all this.

9 MR. HAMILTON: Can we bring up Exhibit -- City  
10 Exhibit 519? Could you blow this up a little bit on the top?

11 BY MR. HAMILTON:

12 Q Mr. Moore, what is this document?

13 A This document shows through the period fiscal year 2014  
14 through fiscal year 2023 the various sources and uses of cash  
15 that are contemplated by the city.

16 Q All right. So could you explain to the Court what each  
17 of the sources of cash are that are listed here on this  
18 document?

19 A Yes. The first line, the surplus of baseline operations,  
20 is essentially what the amount of revenue is that's  
21 anticipated to exceed normal operating expenditures prior to  
22 giving any consideration to payment of debt or other costs  
23 associated with the restructuring, and so, as you can see  
24 there, there's an amount -- a fairly sizeable amount of  
25 revenue that is anticipated to exceed baseline costs.



1 Q What's the next category? What's the next one?

2 A There are three categories below that, incremental  
3 property tax revenues, incremental income tax revenues, and  
4 incremental utility users tax revenues, that are contemplated  
5 to be realized as a result of the restructuring actions. If  
6 you go to the right, I believe those three categories total  
7 approximately \$315 million during that time period or close  
8 to \$320 million.

9 Q All right. Where did those -- those four categories of  
10 sources, where did you get that information from?

11 A These items come from Ernst & Young.

12 Q All right. What's the next -- can you explain the next  
13 line on the sources?

14 A Sure. The restructuring and reinvestment revenue are the  
15 revenue initiatives that we had indicated, the \$483 million,  
16 which provides a significant amount of additional cash for  
17 the city.

18 Q And the next line?

19 A The next item are the cost reductions which, while they  
20 are a cost savings, we treat them as a source of cash here,  
21 and that is the \$358 million.

22 Q All right. And then the last line there in sources?

23 A The last item relates to anticipated proceeds from exit  
24 financing that the city would realize.

25 Q And where did you get the numbers for the exit financing

1 proceeds projections?

2 A The exit financing proceeds comes from both Ernst & Young  
3 and Miller Buckfire.

4 Q Okay. All right. Now, let's talk about each one of the  
5 uses. Can you explain each of the categories of the uses at  
6 the top there?

7 A Yes. The primary items -- the first item, restructuring  
8 professional fees, are the contemplated costs associated with  
9 the restructuring between fiscal year '14 and '15. Moving  
10 down, the baseline --

11 THE COURT: What's the total of those?

12 THE WITNESS: I'm sorry, your Honor.

13 THE COURT: What's the total of those?

14 THE WITNESS: \$130 million.

15 BY MR. HAMILTON:

16 Q Go to the far right on that one, 130. All right. Go  
17 back to the left. Let's go to the others.

18 A The next items, as I indicated before, the surplus of  
19 baseline operations don't contemplate the payment of  
20 expenditures that are being involved in the restructuring,  
21 and so what we have down here are pension contributions for  
22 active employees under the new hybrid plans going forward.  
23 We also have OPEB or retiree healthcare payments contemplated  
24 in the settlements for both current retirees and future  
25 retirees. And then we have the participate -- the

1 certificates of participation reimbursement amounts that are  
2 contemplated to come into the city -- or I'm sorry --  
3 contemplated to go out from the city here during this period.  
4 The last item before we get to contributions are PLD  
5 decommission. There are a number of service stations that  
6 are utilized by the Public Lighting Department that have to  
7 be decommissioned, and these are costs that are associated  
8 with that decommissioning process. The last item relates to  
9 as part of settlements there would be an income stabilization  
10 fund, and these amounts would be going to the stabilization  
11 fund related to the existing defined benefit pension plans.

12 Q All right. And if you total all those up, you get the  
13 line there that says "other reinvestment expenditures/  
14 adjustments to subtotal"; is that right?

15 A That's right.

16 Q And if we go all the way to the right, what's the total  
17 there?

18 A That's a billion 37.

19 Q Okay.

20 THE COURT: All right. Before we go on, would you  
21 slide it back where it was? Would you explain again what the  
22 line "POC reimbursements" reflects?

23 THE WITNESS: Yes. If you could scroll to the  
24 right, please, under this there is contemplated to be the  
25 city would be paying out amounts related to the certificates

1 of participation, and so as it relates to these amounts, \$292  
2 million would be going out from the city.

3 MR. HAMILTON: Go back to the left.

4 BY MR. HAMILTON:

5 Q All right. Can you explain the exit financing principal  
6 and interest payments?

7 A Yes. Moving down, we have a couple of categories that  
8 relate to debt then. First of all, payments on the exit  
9 financing. Obviously, if exit financing is obtained, it has  
10 to be repaid, and that is both principal and interest. And  
11 then I'll just cover the next item as well, which is payments  
12 on secured claims, so these are amounts that are contemplated  
13 under the plan related to secured claims. If you scroll to  
14 the right, you can see the total amounts for those, \$335  
15 million related to exit financing during the period and \$494  
16 million for secured payments.

17 Q And then the number right below 494 is then the new  
18 subtotal, is that right, of 2-1/2 billion?

19 A Yes.

20 Q And what does that refer to?

21 A That's \$2.5 billion, two billion 569, that relates to the  
22 amount of cash that is then available to be used towards the  
23 reinvestment initiatives.

24 Q Okay. And so that's the -- then the lines below that are  
25 the expenditures for the reinvestment initiatives?

1 A Yes. These are the main categories that we have, and if  
2 you scroll to the right, you will see that those line items  
3 total the \$1.7 billion that we referred to previously.

4 Q All right. And we go back to the left, and then after  
5 you take out the 1.7 billion for the restructuring  
6 initiatives, what are you left with?

7 A Here we have three other items. The biggest item is the  
8 contingency, which is an amount that's been built into the  
9 budget for each year. If you subtract out the net of those  
10 three items, which you can see if you scroll to the right,  
11 you have approximately \$96 million as the subtotal for those  
12 three items, and the net then available for unsecured claims  
13 is \$755 million.

14 Q All right. And so the phrase "net surplus," that is the  
15 amount that's available on this chart for unsecured claims;  
16 is that right?

17 A Yes, sir.

18 Q All right. And did you prepare this chart?

19 A This chart was actually prepared by Ernst & Young.

20 Q All right. Was this chart provided to the city in  
21 connection with the decision to include the restructuring  
22 initiatives in the plan?

23 A My understanding is yes.

24 Q All right.

25 MR. HAMILTON: Your Honor, I would move this

1 document into evidence.

2 MR. SOTO: No objection, your Honor.

3 THE COURT: It is admitted.

4 (City Exhibit 519 received at 9:59 a.m.)

5 BY MR. HAMILTON:

6 Q Does this document list all the cash that is available to  
7 fund unsecured claims?

8 A No. There are additional sources of cash that come into  
9 the city during this time period.

10 Q All right. Did you prepare a chart that shows how the  
11 city is going to pay for both the reinvestment initiatives  
12 and the payments for unsecured claims that's contemplated in  
13 the plan of adjustment?

14 A Yes.

15 MR. HAMILTON: Could we bring up Exhibit 583?

16 BY MR. HAMILTON:

17 Q Is this the chart you just referred to?

18 A Yes, it is.

19 Q And is this the chart you prepared?

20 A Yes, it is.

21 Q All right. What have you added to the sources of cash  
22 here that was not reflected in the prior exhibit?

23 A You can see that on the top portion where it says  
24 sources, there's a line item, exit financing proceeds. We  
25 saw that on the previous chart. Below that there are four

1 line items, revenue stream from DWSD-no transaction,  
2 reimbursements from other funds, foundation fund-raising, DIA  
3 contributions, and the state settlement.

4 Q All right. What's the state settlement?

5 A That is part -- that is the lump sum amount that is  
6 anticipated to be received by the state as part of the plan  
7 of approximately \$195 million.

8 Q Why did you add the revenue stream from DWSD here?

9 A The revenue stream from DWSD specifically relates to  
10 primarily reimbursements from DWSD to the city's general fund  
11 for the unfunded amount of the accrued liability on the  
12 defined benefit pension plan.

13 Q Now, that number is 428.5; right?

14 A That's correct.

15 Q So what's the balance there?

16 A The balance are other reimbursements from DWSD related to  
17 healthcare, certificates of participation, as well as SWAPs.

18 MR. HAMILTON: Your Honor, when we assembled the  
19 notebooks, we used a previous version. This is the most  
20 current motion. Everybody has the most current version, but  
21 it's not the version that's in the notebooks I've been  
22 advised by Mr. Soto, so we will try and --

23 THE COURT: Okay.

24 MR. HAMILTON: -- correct that at the lunch break.  
25 Your Honor, I would -- well, wait. I wanted to finish.

1 BY MR. HAMILTON:

2 Q You indicated what you've added to the sources, and to  
3 the left sort of if you read upside down it gives you the  
4 total then of the sources, which is 5.3 billion; is that  
5 right?

6 A That's correct.

7 Q All right. What have you added to the uses of the cash  
8 here that was not reflected in your prior exhibit?

9 A In the uses category, the bottom two line items, the  
10 retiree payments of approximately \$999 million as well as  
11 payments on the new notes have been included in the uses.

12 Q All right. And that's the payments that the plan  
13 provides for for those unsecured claims that are reflected  
14 there; is that right?

15 A That's correct.

16 Q All right. And so let's look at the very top line, which  
17 is cash balance. What is that, the 36 million?

18 A Yes. At the very top the July -- the starting cash  
19 balance -- this is a forecast that covers fiscal year '14  
20 through fiscal year '23 -- the starting point is July 1st of  
21 2013, for that fiscal year '14, and the cash balance was \$36  
22 million.

23 Q All right. All right. So can you explain then in the  
24 bottom right-hand corner it says 87 -- a negative 876.7.  
25 What is that?



1 A If you look on the right, we have shaded the reinvestment  
2 items under both the sources and the uses, and that is that  
3 net \$877 million in reinvestment that I mentioned earlier.

4 Q All right.

5 MR. HAMILTON: Your Honor, I would move City Exhibit  
6 583 into evidence.

7 MR. SOTO: As a demonstrative. I have no objection  
8 as a demonstrative.

9 THE COURT: As a demonstrative, sir?

10 MR. HAMILTON: Yeah. That's right, your Honor.

11 THE COURT: All right. It would help us if you  
12 would say that in your motion. All right. It is admitted.

13 (City Exhibit 583 received at 10:03 a.m.)

14 MR. HAMILTON: Can we bring up City Exhibit 619?

15 BY MR. HAMILTON:

16 Q All right. Now, Mr. Moore, this exhibit has several  
17 pages. This is just the first page. What is this entire  
18 document?

19 A This is a summary of the major categories for the  
20 reinvestment initiatives. You'll recognize some of the  
21 numbers on here. Investment is \$1.7 billion broken out by  
22 those six categories, and then we have the cost savings and  
23 the revenue initiatives, and then showing the net  
24 reinvestment.

25 Q All right. So are all of the tables that are in this

1 document taken from your expert report?

2 A Yes, sir.

3 Q All right. And so did you prepare each one of the tables  
4 that is in this document?

5 A Yes.

6 Q With respect to this first one, Table little -- Table i,  
7 Table little i, what does it summarize?

8 A It summarizes the investment by category. As I mentioned  
9 earlier, we look at six categories of investment that are  
10 listed there along with the cost savings and revenue  
11 initiatives.

12 Q And it has at the bottom the total net cost that matches  
13 up with the previous exhibit; is that right?

14 A That's right.

15 Q All right. Now let me ask you some questions to provide  
16 the answers to the Court on how you went about developing  
17 these initiatives. How did you go about developing these  
18 initiatives?

19 A It was really a multiple-step process. First, it's  
20 important to identify what the scope that we looked at was,  
21 and we looked at not only all general fund departments but  
22 also enterprise funds that impacted the general fund.  
23 Specifically, that would have included the Department of  
24 Transportation, Building Safety Engineering and Environmental  
25 Department or BSEED for short, and the airport. We first

1 went into each department, and we essentially had to  
2 understand the nature of the department as well as how they  
3 were performing in the services that they were supposed to be  
4 providing. From there, we looked at benchmark information  
5 where available and where appropriate to gauge the level of  
6 deficiency in each of the departments. From that point, we  
7 identified various initiatives for improving the level of  
8 services that the departments were performing, and we then  
9 compiled that into the reinvestment plan.

10 Q Which department -- how did you decide which departments  
11 to look at in connection with doing this investigation?

12 A The general fund was the primary focus; however, as I  
13 indicated, certain enterprise funds were also looked at, and  
14 the primary reason for that is because those enterprise funds  
15 have an impact on the general fund typically through funding  
16 needs.

17 Q All right. And are you familiar with the phrase "bottom  
18 up"?

19 A Yes, I am.

20 Q And what does it mean to you?

21 A A bottom up approach is what we utilized in this  
22 endeavor, and really what that means is that we went into the  
23 departments working specifically with the departments to  
24 develop initiatives at the core element basis, so this was  
25 not an approach whereby some people refer to as the top down

1 approach where you might say here's \$40 million for this  
2 department, how should we spend it. This was developing  
3 individual projects and initiatives from a bottom up basis  
4 with the departments to address service deficiencies.

5 Q All right. And how specifically did you go about  
6 identifying the current operating and performance levels of  
7 the departments that were impacting the general fund?

8 A We utilized -- first, it's important to note that the  
9 city over the years has had a lot of people studying its  
10 operations. As part of trying to get through and develop  
11 this plan as quickly as possible, we had to utilize and  
12 leverage all information that we could, so we looked at and  
13 utilized a whole host of previous studies that have been  
14 developed. Secondly, we worked very closely with individuals  
15 within the cities, and we also, as I mentioned earlier,  
16 obtained, where available and where appropriate, benchmark  
17 information.

18 Q All right. And what do you mean by "benchmarking  
19 information"?

20 A Benchmarking information is basically a comparative tool  
21 to understand how a particular department is performing  
22 compared to, say, a city of similar size or another city in  
23 the area or some other appropriate way of comparing how a  
24 department is performing.

25 Q Okay. When did you start this process of developing

1 these restructuring initiatives?

2 A As I mentioned in the very beginning, Conway MacKenzie  
3 was engaged in January of 2013, and we began the process  
4 essentially by the end of January of 2013.

5 Q All right. And when did you complete the process?

6 A There have been a few steps along the way. The first  
7 process we completed prior to June 14th, and that --

8 Q Of which year?

9 A Of 2013. And that process basically was the initial  
10 plan -- the initial reinvestment plan that was utilized in  
11 the proposal to creditors that was presented by the city on  
12 June 14th of 2013. Subsequent to that time, we continued to  
13 work with the department heads as well as individuals within  
14 the departments to refine those plans. In addition to that,  
15 we had a new mayor that was elected in November that took  
16 office in January, and we had further activities and  
17 significant interaction with not only the new mayor but also  
18 other individuals that were new to the city to continue to  
19 refine the plan along the way resulting in the final  
20 reinvestment plan.

21 Q And when you say "the final reinvestment plan," is that  
22 as of July or the date of that earlier exhibit this morning,  
23 July of 2014?

24 A Yes, as of July 2nd, 2014.

25 Q All right. How did you go about determining the amount

1 of spending that would be required for each department that's  
2 included in the reinvestment initiatives?

3 A As I indicated, we used a bottom up approach, and so we  
4 developed these elements at a very detailed level. As an  
5 example, because labor is such an important piece, we looked  
6 at specifically what are the individuals that are required,  
7 what are the pay levels that are required. We looked at what  
8 the specific amount of training would be that would be  
9 required. We also sized out information technology  
10 expenditures obtaining quotes everywhere we could to  
11 substantiate and also utilizing a number of outside parties  
12 that the city utilizes to add additional basis for the items.

13 Q Let me ask you about that last part. Did you obtain and  
14 rely on work that was performed by others who had specialized  
15 expertise with respect to some of the departments?

16 A Yes.

17 Q All right. Can you explain generally to the Court what  
18 other specialist work you obtained and relied upon?

19 A When Conway MacKenzie was first engaged in January of  
20 2013, the city had already been utilizing outside advisors in  
21 a number of areas. As an example, the Manhattan Institute  
22 was providing services to the Detroit Police Department.  
23 They continued to be utilized along with the Bratton Group by  
24 Detroit Police, and we worked with Manhattan Institute and  
25 Bratton Group for the police department.

1 Q Can you tell the Court a little bit more? What is the  
2 Manhattan Institute?

3 A Sure. The Manhattan Institute teamed up with the Bratton  
4 Group, and essentially their purpose was to provide specific  
5 policing strategies, so as Chief Craig was developing his  
6 plan of action, Conway MacKenzie, along with the Bratton  
7 Group and the Manhattan Institute, worked very closely with  
8 him on the development of that plan of action.

9 Q And who's the Bratton Group?

10 A The Bratton Group is named after the -- Bill Bratton, who  
11 has had a number of very important positions, law enforcement  
12 positions, around the country, former commissioner of police  
13 in New York as well as -- I think his title was chief in Los  
14 Angeles.

15 Q Did your firm actually retain other consultants or ask  
16 the city to retain consultants in connection with your work?

17 A In most instances in the departments outside advisors  
18 were already there when we were engaged. There is at least  
19 one instance that I can think of where we felt it was very  
20 important to have an outside subject matter involved to  
21 enhance the credibility of the plan, and that was in the fire  
22 department where an organization by the name of TriData was  
23 engaged.

24 Q Who's TriData?

25 A TriData is an outside consulting company that focuses

1 specifically on fire operations.

2 Q And whose idea was it to bring them in?

3 A I believe that was a joint idea that Conway MacKenzie had  
4 proposed and the program management director at the time,  
5 Chris Andrews. It was eventually approved under the  
6 emergency manager facilitated that engagement.

7 Q And why were you recommending that the Tri group be  
8 brought in?

9 A We wanted to make sure that the plan had as much  
10 credibility as possible, and while Conway MacKenzie is very  
11 well-versed in developing turnaround and restructuring plans,  
12 especially in the area of fire where we were looking at  
13 converting to a multidisciplinary type of department where  
14 there were significant capital expenditures that were  
15 required and the strategy along with placement of where  
16 facilities would be, how to staff, it was very important to  
17 have that subject matter expertise.

18 Q Now, when you say "multidisciplinary," you mean like both  
19 fire and EMS?

20 A Correct. Right now the fire department includes the  
21 fire-fighting division as well as the EMS division. There  
22 are other divisions as well, but those are the two primary  
23 items. And the EMS division does not perform fire-related  
24 duties, and the fire department does not perform EMS duties.  
25 Detroit is one of the last cities to still have those



1 functions separated. The plan contemplates moving to a  
2 multidisciplinary department.

3 Q Did you interact with E&Y in connection with developing  
4 the restructuring -- the reinvestment initiatives?

5 A Yes.

6 Q Can you describe for the Court the nature of your  
7 interaction with E&Y in developing the restructuring  
8 initiatives?

9 A Conway MacKenzie has had significant involvement with  
10 Ernst & Young throughout this process. Ernst & Young, as the  
11 Court may know, is the financial advisor to the city, and so  
12 Ernst & Young focused on developing baseline financial  
13 projections as well as scenarios associated with various  
14 settlements. As Conway MacKenzie put together the  
15 reinvestment initiatives, it was critical to understand  
16 various amounts contemplated in baseline operations to ensure  
17 there was not double counting, that things would not slip  
18 through the cracks, so the plans are very tightly integrated.

19 Q All right. Now, in connection --

20 THE COURT: All right. Let's pause now and take our  
21 morning recess, please, and we'll reconvene at 10:30, please.

22 MR. HAMILTON: Thank you, your Honor.

23 THE CLERK: All rise. Court is in recess.

24 (Recess at 10:15 a.m., until 10:30 a.m.)

25 THE CLERK: All rise. Court is back in session.

1 Please be seated.

2 THE COURT: You may proceed.

3 MR. HAMILTON: Thank you, your Honor.

4 BY MR. HAMILTON:

5 Q All right. Mr. Moore, we left off with going through how  
6 you developed the restructuring initiatives. I want to ask  
7 you were there any practical constraints, if any, that you  
8 took into account in deciding what initiatives the city would  
9 undertake?

10 A Yes. It was very important that items that were included  
11 in the reinvestment initiatives could be implemented, so, as  
12 an example, if something had a high degree of risk with  
13 implementation or if it involved a factor outside of the  
14 reasonable influence of the city's leadership such as a  
15 legislative change, those items were not included.

16 Q Can you give an example of something that would have  
17 required some sort of action by the state legislature and,  
18 therefore, you didn't include it?

19 A One of the items that has been talked about quite a bit  
20 is something related to reverse commuters. Reverse commuters  
21 are people that live outside of the city -- or I'm sorry --  
22 that live in the city but work outside the city. And the  
23 question is is the city losing tax related to those  
24 individuals? There are items that would involve the state's  
25 support that could help with that. While that has not

1 happened yet and, as a result, we did not include that, that  
2 is certainly something that the city continues to pursue.

3 Q Mr. Moore, based on your experience over the past two  
4 decades in operational restructuring and turnaround  
5 consulting, is the process you used in developing each of  
6 these reinvestment initiatives from the bottom up a standard  
7 and typical process?

8 A Yes.

9 Q Was it reasonable for you to expect that this process  
10 would generate a reasonable foundation for your opinions and  
11 recommendations to the city as to what it should do to  
12 provide adequate levels of municipal services and fund normal  
13 municipal operations?

14 A Yes.

15 Q Can you elaborate on that? Is there -- was there any  
16 other way to do it?

17 A This is a massive undertaking that the city is about to  
18 go through with this reinvestment, and the only way that the  
19 city really has a chance to be successful with it is for the  
20 reinvestment plan to be as detailed as possible, so while  
21 there certainly could be other ways of coming up with perhaps  
22 higher level plans, for it to be something that is actionable  
23 and implementable, this is the way that you would have to go  
24 through it.

25 MR. HAMILTON: Your Honor, the city proffers Charles

1 Moore as an expert in advising municipal and corporate  
2 entities on organizational turnarounds and restructuring,  
3 including operational and financial revitalization.

4 MR. SOTO: No objection, your Honor.

5 THE COURT: All right. You may proceed.

6 BY MR. HAMILTON:

7 Q Mr. Moore, did you submit an expert report in connection  
8 with this hearing on the confirmation of the city's plan of  
9 adjustment?

10 A I did.

11 Q All right.

12 MR. HAMILTON: Can we bring up Exhibit 464?

13 BY MR. HAMILTON:

14 Q Mr. Moore, is this your expert report?

15 A It appears to be, yes.

16 Q All right. Does the contents of this report truthfully  
17 and accurately detail your expert opinions in this case with  
18 respect to the reinvestment initiatives?

19 A Yes, it does.

20 MR. HAMILTON: Your Honor, I would move the report  
21 into evidence. I conferred with Mr. Soto. This report --  
22 moving it into evidence is not intended to replace or  
23 supersede his testimony here on the stand, but it is  
24 important for him to be able to -- it's a very detailed  
25 report, and it's important for him to be able to refer to it

1 throughout his testimony.

2 MR. SOTO: We have no objection to it entering for  
3 demonstrative purposes.

4 MR. HAMILTON: I wasn't going to offer it just for  
5 demonstrative purposes. If I need to go through every single  
6 factual assertion or the basis for all of his opinions in  
7 this report, I will do so, but there are some things that  
8 total \$250,000 here and there that I wasn't going to put --  
9 bring out in testimony. I can do that, but it'll make the  
10 testimony a lot longer.

11 MR. HACKNEY: Your Honor, what I would say -- I'm  
12 going to sit back down. Sorry.

13 THE COURT: That's okay. You have my permission.

14 MR. HACKNEY: Your Honor, what I would say is that  
15 the evidence is the opinion testimony from the witness. The  
16 report is hearsay, but it may be helpful to facilitate your  
17 understanding of the witness' testimony, and we don't have a  
18 problem with it coming in for demonstrative purposes to  
19 facilitate and aid the trier of fact in understanding the  
20 testimony, but the evidence itself comes from the witness'  
21 mouth. That's the nature of opinion testimony, and so I  
22 think you get to the same outcome. The distinction between  
23 substantive evidence in the record and whether demonstratives  
24 are admitted into the record is much more pronounced in a  
25 jury trial where it actually affects what goes back with the

1 jury, but to be sort of pristine, while you can have that as  
2 a demonstrative to refer to and help you understand Mr.  
3 Moore's testimony, at the end of the day the evidence itself  
4 is Mr. Moore's testimony and his opinions.

5 MR. HAMILTON: I would say, your Honor, that I don't  
6 share the same understanding of the term "demonstrative."  
7 The facts upon which this witness relies to reach his  
8 expert's opinions are important and not -- to call them  
9 demonstrative isn't the same. And while we don't have a jury  
10 here, we do have the possibility of appellate review, and  
11 these individuals have the opportunity to cross this person  
12 about all of the facts that support his opinions that are set  
13 forth in his report.

14 THE COURT: The report is hearsay, though, isn't it?

15 MR. HAMILTON: It is, your Honor, and if they're  
16 objecting to it coming in as the facts that support his  
17 opinions, then I will have to bring out all the facts that we  
18 want the appellate court, if they ever have the opportunity  
19 to review, to hear.

20 MR. HACKNEY: Well, and if I can respond and be very  
21 clear, the one thing we know is that that document doesn't  
22 establish a single fact from an evidential standpoint. And  
23 the second thing is absolutely we --

24 THE COURT: Well, but it does establish the facts  
25 that he relied upon in reaching the opinions in it.

1 MR. HACKNEY: It doesn't establish those facts. It  
2 reflects the facts that he considered. It reflects his state  
3 of mind.

4 MR. HAMILTON: If that's what you mean by  
5 "demonstrative," then I'll limit it to that. It's evidence  
6 of what he considered.

7 THE COURT: All right.

8 MR. HAMILTON: If that's what you mean by  
9 demonstrative --

10 THE COURT: How about if we agree upon this? We'll  
11 admit the document but not to prove the truth of any of the  
12 facts asserted in it, only to show what facts he did rely on,  
13 and then we'll have him testify regarding any opinions that  
14 the report reflects.

15 MR. HACKNEY: Makes sense, your Honor.

16 MR. HAMILTON: That works, your Honor.

17 THE COURT: Everyone is shaking heads, so on that  
18 limited basis, the Court will admit this and hopefully other  
19 expert reports as well.

20 (City Exhibit 464 received at 10:37 a.m.)

21 BY MR. HAMILTON:

22 Q Mr. Moore, do you have an opinion as to whether the  
23 blight initiatives that are summarized in your report are  
24 necessary and will significantly reduce blighted structures  
25 and strengthen neighborhoods in the City of Detroit?

1 A Yes, I do.

2 Q What's your opinion?

3 A That the blight initiatives are necessary to reduce  
4 blight and strengthen neighborhoods.

5 Q Do you have an opinion as to whether the public safety  
6 initiatives that are summarized in your report are necessary  
7 and will substantially improve the public safety services for  
8 those in and around the City of Detroit?

9 A Yes, I do.

10 Q What is your opinion?

11 A That the public safety initiatives are necessary and will  
12 significantly improve public safety services in the City of  
13 Detroit.

14 Q Do you have an opinion as to whether the resident service  
15 initiatives summarized in your report are necessary and will  
16 substantially improve the services the city provides to its  
17 residents, businesses, and visitors?

18 A Yes, I do.

19 Q What's that opinion?

20 A That the resident service initiatives are necessary, and  
21 they will significantly improve the services provided to the  
22 residents in and around the City of Detroit.

23 Q Do you have an opinion as to whether the business service  
24 initiatives summarized in the report are necessary and will  
25 enhance the attractiveness of the city to the business



1 community through streamlined processes and improved support  
2 facilities?

3 A Yes, I do.

4 Q What's your opinion?

5 A That the business service initiatives are necessary to  
6 improve services that the city provides to its businesses as  
7 well as to streamline overall processes.

8 Q Do you have an opinion as to whether the organizational  
9 efficiency initiatives summarized in your report are  
10 necessary and will substantially improve administrative and  
11 support departments to perform necessary functions?

12 A Yes, I do.

13 Q Your opinion?

14 A My opinion is that the organizational efficiency  
15 initiatives are necessary and they will substantially improve  
16 the administrative and support departments necessary to  
17 perform the city's operations.

18 Q Mr. Moore, do you have an opinion as to whether the  
19 management initiatives summarized in your report are  
20 necessary and will allow elected officials to more  
21 effectively manage the City of Detroit?

22 A Yes, I do.

23 Q What is your opinion?

24 A That the management initiatives are necessary, and they  
25 will allow the elected officials to more effectively manage

1 the city.

2 Q All right. And do you have an opinion as to whether the  
3 nondepartmental initiatives summarized in your report are  
4 necessary and will improve the operations of the 36th  
5 District Court?

6 A Yes, I do.

7 Q What's that opinion?

8 A The nondepartmental initiatives are necessary and they'll  
9 improve the operations of the 36th District Court and reduce  
10 the funding burden on the city's general fund.

11 Q All right. Mr. Moore, do you have an opinion as to  
12 whether the reinvestment initiatives as a whole are necessary  
13 in order to provide -- in order for the city to provide  
14 adequate levels of service to its citizens and businesses?

15 A Yes, I do.

16 Q What is that opinion?

17 A The reinvestment initiatives are necessary for the city  
18 to provide adequate levels of services to its residents and  
19 businesses.

20 Q Mr. Moore, do you have an opinion as to whether it is  
21 reasonable to expect that when the reinvestment initiatives  
22 are fully implemented, the city will be able to provide  
23 adequate levels of municipal services and fund normal  
24 municipal operations?

25 A Yes, I do.

1 Q What is your opinion?

2 A That once implemented, the reinvestment initiatives will  
3 be able to provide adequate support for the city to provide  
4 and support its operations.

5 Q Now, let me ask you about this. If the city's plan of  
6 adjustment were not confirmed and instead the city's Chapter  
7 9 case were dismissed, do you have an opinion as to whether  
8 the city could or should still attempt to implement the  
9 reinvestment initiatives that are summarized in your report?

10 A I will answer that in two ways. Number one, I absolutely  
11 believe that the city should implement the reinvestment  
12 initiatives in order to provide those adequate levels of  
13 services. The second part, though, could, these reinvestment  
14 initiatives require substantial amounts of funding, and  
15 without the benefits of the plan contemplated in this Chapter  
16 9 process, it is unclear to me how the reinvestment  
17 initiatives could be funded.

18 Q All right. I want to go back and clear up just what  
19 appears to -- may have been a little bit of confusion in my  
20 inartful questions.

21 MR. HAMILTON: Can we bring back up Exhibit 519 to  
22 the screen here? This is the schedule of sources and uses  
23 that we discussed. Could you blow it up a little bit more?  
24 All right.

25 BY MR. HAMILTON:

1 Q The very first line for under "sources," Mr. Moore, on  
2 surplus of baseline operations -- you gave the Court your  
3 description of what that was -- now, that line, that includes  
4 the current city payments on the COPs; is that right? When  
5 you say "surplus of the baseline operations," the baseline  
6 operations includes the current COPs payments.

7 A I'm not sure of the answer to that. I was under the  
8 impression that the COPs payments -- the current COPs  
9 payments were not under there. That could be incorrect,  
10 though.

11 Q All right. If it were and then if you have under "uses"  
12 the POC reimbursements, the effect would just be to net them  
13 out and make them zero for the COPs; is that right?

14 THE COURT: Excuse me. I have to interrupt here.  
15 You're asking leading questions.

16 MR. HAMILTON: Fair enough, your Honor.

17 THE COURT: And I want to hear the witness testify  
18 on this, so I'm going to ask the witness to study this  
19 question of what those two highlighted lines mean, and then  
20 he can give us his testimony about that. If he's not  
21 prepared to do that at this moment, that's fine, but,  
22 Mr. Moore, I'm going to ask you for your lunchtime homework  
23 to be prepared to clarify what these lines mean.

24 THE WITNESS: Yes, your Honor.

25 MR. HAMILTON: All right.

1 BY MR. HAMILTON:

2 Q And then could I ask you then again on uses on  
3 restructuring of professional fees, you have 82 in 2014 and  
4 47 in 2015. Can you describe for the Court these numbers,  
5 how you came up with them?

6 A Yes. These numbers represent the estimate of  
7 professional fees to be paid by the debtor, the city, as part  
8 of the Chapter 9 process, so it includes not only the city's  
9 professionals but other professionals for which the city is  
10 paying.

11 Q Who did you consult with to get those numbers?

12 A This number was actually prepared by Ernst & Young.  
13 Certainly I have conversed with Ernst & Young multiple times  
14 about these numbers, but it is based on estimates provided by  
15 advisors.

16 Q All right. Let's now go into the facts that underlie  
17 your opinions on each of the restructuring initiatives, and  
18 let's first talk about the first opinion you gave on blight.  
19 What is the problem that the blight initiatives are designed  
20 to address?

21 A The city has experienced significant depopulation over  
22 decades, and it has been further exacerbated by a lot of  
23 foreclosures in the last several years, so there are  
24 significant amounts of blighted properties around the city  
25 such that the estimate of the number of units that are

1 blighted is approaching 80,000 units.

2 Q How did you define blight for the purpose of developing  
3 these initiatives?

4 A The definition that I used is consistent with what the  
5 blight task force used in its report that was published in  
6 May of 2014.

7 Q Is the blight task force the same thing as the blight  
8 removal task force?

9 A Yes, it is.

10 Q Okay. What is the blight removal task force?

11 A This task force was created in September of 2013  
12 specifically to focus on the enormous task of trying to  
13 reduce or eliminate blight within the city.

14 Q Do you know who chairs the blight task force?

15 A Yes. There are three chairs.

16 Q Do you know who they are?

17 A Yes, sir. Dan Gilbert, who is the chairman of Quicken  
18 Loans; Glenda Price, who is the president of the Detroit  
19 Public Schools Foundation; and then Linda Smith, who is  
20 president of U-SNAP-BAC.

21 Q Okay. And did the blight removal task force issue a  
22 final report and recommendation?

23 A Yes, sir.

24 Q Do you know when?

25 A In May of 2014.

1 Q All right.

2 MR. HAMILTON: Can we bring up City Exhibit Number  
3 73, please?

4 BY MR. HAMILTON:

5 Q Is this the report that was produced by the task force?

6 A It appears to be, yes.

7 Q Okay.

8 MR. HAMILTON: If we could go to page 11 of this  
9 PDF, which is actually page 13 of the report, if we could  
10 blow up the right side, page 13.

11 BY MR. HAMILTON:

12 Q Is this the definition of blight that you used in  
13 constructing the blight initiatives in your report?

14 A Yes. On this page, there are a number of bulleted items  
15 on the left, which is consistent with how blight is defined  
16 in Michigan law, and then the blight task force added two  
17 additional items, which I agree with, on the right. One is  
18 fairly obvious, that it's open to elements and trespassing,  
19 and then the second item is a Detroit-specific item, which is  
20 that it occurs or it exists on the list -- the BSEED  
21 demolition list.

22 Q All right. And why do you believe this definition is the  
23 appropriate one to use for purposes of the reinvestment  
24 initiatives?

25 A The definitions in -- the definition is important, first

1 of all, in order to be able to identify what constitutes  
2 blight, and then, secondly, as part of the efforts that the  
3 city is undertaking, it is trying to obtain sources of cash  
4 from any source possible, and so that also makes it important  
5 to have a consistent definition of blight, especially with  
6 Michigan law.

7 Q Did you rely upon this report in developing the blight  
8 initiatives that are set forth in the reinvestment  
9 initiatives?

10 A Yes, sir.

11 Q All right. And is it typical and reasonable for  
12 professionals in your area to rely upon such reports as this  
13 one in formulating your opinions and recommendations?

14 A It is. It is important always to perform diligence on  
15 something and not just rely on it blindly, which I certainly  
16 did in this regard of performing diligence on it, but, yes,  
17 it is common to rely on other task forces or other reports.

18 MR. HAMILTON: Your Honor, I would move Exhibit --  
19 City Exhibit 73 into evidence as materials relied upon by  
20 Mr. Moore in reaching his expert opinions on the blight  
21 initiatives.

22 MR. SOTO: Your Honor, we object for it being  
23 admitted as anything other than a demonstrative. It is  
24 hearsay in the same vein as his report is. We have no  
25 problem with it being a demonstrative of what he relied on



1 but not for the truth of what's in there.

2 THE COURT: All right. For the limited purpose of  
3 showing what the witness relied on in formulating his own  
4 opinion in his own report, the Court will admit it.

5 (City Exhibit 73 received at 10:49 a.m.)

6 MR. HAMILTON: Thank you, your Honor.

7 BY MR. HAMILTON:

8 Q Mr. Moore, how did you determine the scope of the city's  
9 problem with blight?

10 A I undertook several activities going back all the way to  
11 January of 2013. Number one, I have visited multiple blight  
12 removal sites. That includes a pilot area that was done by a  
13 private organization near the Eastern Market back around  
14 February of 2013 visiting with Mr. John Hantz, who has his  
15 own efforts underway, as well as visiting the Brightmoor  
16 area, which was also undertaken by an outside private  
17 organization. In addition to that, I have spoken with  
18 residents in the areas that have actually had blight removal  
19 activities undertaken. I participated -- or I met -- I guess  
20 I participated in a meeting with the blight removal task  
21 force. I've spoken to members of the blight removal task  
22 force, and I've had many interactions with city personnel  
23 that are involved with blight removal going back to the  
24 previous planning -- director of the planning and development  
25 department, Karla Henderson, as well as members of the

1 building department right now.

2 Q And did you also then rely on the work that the task  
3 force did in determining the scope of the problem?

4 A Yes.

5 Q All right. And what is your understanding of what the  
6 task force did to determine the scope of the problem?

7 A When the city initially put together the blight  
8 initiatives as part of the proposal to creditors, there was  
9 information that certainly had been gathered at that point,  
10 but it was determined that a much more detailed analysis of  
11 the blight conditions needed to occur, so one of the first  
12 objectives of the blight removal task force was to develop a  
13 comprehensive database of the blighted properties in the  
14 city, so that is one of the primary activities, and then the  
15 next --

16 Q I'm sorry. Is that database that was created, that  
17 comprehensive database, does it have a name that people refer  
18 to?

19 A Yes. Most people refer to that as the Motor City Mapping  
20 Project.

21 Q Okay.

22 A In addition to that, the blight removal task force had to  
23 estimate costs as well as various approaches that could be  
24 taken to remove blight.

25 Q What were the -- did the task force conduct a survey of

1 properties?

2 A Yes, sir. The blight removal task force utilized  
3 residents to go out and survey every lot in the city. The  
4 result was approximately -- or over 99 percent of the 380,000  
5 lots in the city were surveyed and included in the Motor City  
6 Mapping Project, which was then validated against numerous  
7 other data sources.

8 Q And do you have an understanding as to that one percent  
9 that wasn't included, why it wasn't included?

10 A There were multiple areas or reasons for that. One of  
11 the primary items is, as most people are probably aware, this  
12 past winter was very, very harsh within the City of Detroit,  
13 and in some instances the snow caused an inability to really  
14 understand what was there in a lot.

15 MR. HAMILTON: Can we bring up City Exhibit 619?

16 And we are on page -- yeah, there we go. That's page 2.

17 BY MR. HAMILTON:

18 Q This is Table 1-A. What is this document?

19 A This is an exhibit from the blight removal task force  
20 report that categorizes various types of properties,  
21 structure, residential, commercial as well as vacant lots,  
22 and then categorizes them by either blighted or nonblighted  
23 and what the ownership of those is within those two  
24 categories.

25 Q All right. And if we can get to the far right -- that's

1 all right. We can just leave it there. How will the --  
2 there were go. That's okay. That's old school. All right.  
3 How will the blight initiatives that are summarized here --  
4 Well, let's -- I'm sorry. Let's go to Table 1-B. What does  
5 this show?

6 A This takes the information on the previous chart and  
7 shows the percentage of properties among these different  
8 types that are blighted, so, again, you have residential,  
9 commercial, and then vacant lots, and approximately 30  
10 percent of residential structures and 30 percent of  
11 commercial structures are blighted.

12 Q Okay. And let's look at Table 1-C, the next one. What  
13 does this show?

14 A This shows the reinvestment initiatives associated with  
15 the blight initiatives. We have multiple categories here.  
16 Investment -- total investment, as I had indicated before, is  
17 \$440.3 million. Against that there are revenue initiatives  
18 of approximately 72.3 million resulting in net reinvestment,  
19 meaning net cash needed by the city, of approximately \$368  
20 million.

21 Q And then if we look at Table 1-D, see that 20.3. I  
22 believe you referred to that earlier this morning. What does  
23 that refer to?

24 A Yes. This is the breakout of the 440.3 in investment,  
25 and specifically the \$20.3 million are costs that the city

1 will likely incur as a result of utilizing the Hardest Hit  
2 Funds for blight removal. The Hardest Hit Funds actually  
3 provide for up to \$25,000 per lot, and there are other items  
4 that are necessary in terms of upkeep and maintenance that  
5 will cost additional amounts of money.

6 Q Will spending this money -- will this address all of the  
7 residential blight that's been identified by the task force?

8 A Most likely not.

9 Q Why is that?

10 A The blight removal task force identified approximately  
11 80,000 lots, if you will, that may be blighted. Of that  
12 80,000, about half they categorized as blighted, and the  
13 other half has been categorized as showing signs of blight.  
14 Based on the cost estimate, if all 80,000 units require  
15 blight removal, then it is likely that the city will need  
16 more than this amount to completely eliminate that blight.  
17 And as a result, it could be that the use of this money will  
18 not result in complete eradication of blight.

19 Q All right. Did the task force estimate what the total  
20 cost would be for eliminating even the ones that show signs  
21 of blight?

22 A Yes, it did.

23 Q What was that total?

24 A That total was approximately \$850 million.

25 Q Okay. All right. Of that total -- well, let's bring

1 up -- let's look at Table 1-E. What is this document, and  
2 what does it show?

3 A This is a table from the blight removal task force that  
4 estimates the cost of blight removal, and there are a few  
5 important points on this. First of all, what the focus is on  
6 primarily is structural blight removal. Nonstructural blight  
7 removal includes clearing lots of brush and other debris.  
8 That is much less expensive. Structural blight removal --  
9 and that is where the bulk of the blight exists -- is much  
10 more expensive. As you can see, there's approximately \$800  
11 million that would be estimated to be used if all 80,000  
12 units are blighted, and of that total I mentioned  
13 approximately 850 million. It's 845.9. 800 of that relates  
14 to structural blight removal.

15 Q All right. So could we go back to Table 1-C? Mr. Moore,  
16 have any additional sources of revenue been identified to  
17 fund the blight initiatives?

18 A Yes. So far there are two, and they are both included  
19 under the revenue initiatives. As I've mentioned, there's  
20 approximately \$52.3 million as part of the Hardest Hit Funds  
21 program.

22 Q Can you describe for the Court what that is?

23 A Yes. As part of the U.S. Treasury TARP program, there is  
24 an initiative that's referred to as Hardest Hit Funds. Not  
25 all of those Hardest Hit Funds have been utilized, and in

1 2013 the State of Michigan was awarded amounts from the  
2 Hardest Hit Funds to be used towards blight removal.  
3 Approximately \$100 million was given to the State of Michigan  
4 to be spread out over five communities, and the City of  
5 Detroit received an allocation of \$52.3 million of that  
6 amount from the state.

7 Q Where does the other 20 million then on this chart come  
8 from?

9 A The other \$20 million relates to a release of funds that  
10 are in a -- what's referred to as the fire escrow fund where  
11 when there is a property that has been destroyed by fire,  
12 certain insurance proceeds go into a fund, and those have not  
13 been utilized. And there was approximately \$20 million in  
14 that fund as of April of 2014 that the city has started to  
15 use towards blight removal.

16 Q All right. Mr. Moore, can I ask you now to refer to --  
17 if you can get to it, to page 14 of your expert report? What  
18 benefits can the city anticipate as a result of the blight --  
19 of the blight initiatives? Excuse me.

20 A As part of the reinvestment initiatives, there's no  
21 direct impact from blight. However, there are numerous  
22 indirect benefits from blight removal, and those would  
23 include not only the improved appearance of the city, also  
24 the stabilization of neighborhoods. Certainly a lot of  
25 information shows -- and the blight removal task force has

1 indicated this -- that neighborhoods after they get to a  
2 certain point, which they refer to as the tipping point,  
3 really can be lost, so this stabilizes those neighborhoods.  
4 Also, other benefits are listed here, reduced migration from  
5 the city, increased demand, stabilized property values,  
6 perhaps increased property tax revenue. Promotion of public  
7 safety is a very important one given the blighted properties  
8 tend to be a haven for crime as well as fires, and then you  
9 have those two items down below.

10 Q And then if we go to the next page of the report --

11 A The other items that are listed here, not only improved  
12 fire rating but also, which ties directly into insurance  
13 rates, the reduced maintenance burden to the city is  
14 important. More efficient land utilization, more efficient  
15 delivery of city services, and enhanced development  
16 opportunities are all anticipated benefits of blight removal.

17 Q What opportunities are there for Detroit citizen  
18 involvement in connection with the blight initiatives?

19 A As part of the blight removal task force, as I mentioned,  
20 first of all, with the Motor City Mapping Project, that  
21 utilized residents going from neighborhood to neighborhood  
22 surveying every lot. Now that's continuing, and a tool is  
23 being developed. The term is referred to as blexting,  
24 b-l-e-x-t-i-n-g, and that is all meant to further enhance the  
25 database that the city utilizes related to the condition of



1 properties such that a resident that's walking through a  
2 neighborhood, if they see signs of blight, they can enter  
3 that into a database so that the city is aware of it and  
4 perhaps take action long before it gets too far. There's  
5 also talk about, as blight removal efforts continue, the  
6 utilization of residents for those blight removal efforts. I  
7 referred to a private effort that occurred in 2013 in  
8 Brightmoor, and that activity utilized specifically residents  
9 in that area to assist with the blight removal.

10 Q And is there something about some app that has been  
11 developed that allows citizens to be involved in the blight  
12 project?

13 A That's right. And so specifically that -- when we refer  
14 to blexting, we're referring to the use of this app that is  
15 being rolled out right now.

16 Q Okay. All right. Let's go to the public safety  
17 initiatives that you offered an opinion on. What are the  
18 public safety initiatives?

19 A The public safety initiatives, as I mentioned, are  
20 specifically related to the Detroit Police Department and the  
21 Detroit Fire Department to improve the overall effectiveness  
22 and safety within the city.

23 Q All right.

24 MR. HAMILTON: Let's bring up Exhibit 619 again and  
25 go to Tables 2-A and 2-B.

1 BY MR. HAMILTON:

2 Q Mr. Moore, what do these tables show?

3 A The top table shows the net reinvestment initiatives  
4 related to the public safety initiatives. You can see that  
5 the police department has investment of \$339.8 million, and  
6 against that cost savings are anticipated of 87.6 million  
7 with revenue initiatives of 32.6 million for net reinvestment  
8 of just about \$220 million. I'll cover the police department  
9 down below, and then I'll come back to fire. Within that  
10 investment, the \$339.8 million, approximately \$175 million of  
11 that relates to additional operating expenses, and that  
12 specifically relates to labor-related items. Fleet and  
13 technology and capital expenditures are the vast majority of  
14 the rest of that. Fleet refers to the vehicles. Technology  
15 is both hand-held radios and an integrated public safety  
16 system, and then capital expenditures relates to facility  
17 improvements.

18 Q All right. How did you go about assessing how well or  
19 poorly the police and fire department of the city are  
20 currently functioning?

21 A There have been numerous reports that have been written  
22 about the City of Detroit, but also there's a number of data  
23 sources that are used throughout the country to assess the  
24 effectiveness of the police department. There is uniform  
25 crime reporting, which the FBI uses, and while people

1 rightfully point out that not all departments measure things  
2 the right ways, that information can be very helpful to  
3 understand how a department is operating, and so we utilized  
4 benchmarking information where available to help assess what  
5 the police department -- or how the police department was  
6 performing.

7 Q All right. When you say "benchmarking information," were  
8 there particular standard measurable statistics that are used  
9 for that type of benchmarking?

10 A I wouldn't say standard, but the most common measured  
11 items related to a police department are -- and this is in no  
12 particular order -- crime rate, case closure, and response  
13 time.

14 Q And then what do you compare that information to?

15 A It's important to compare those to a variety of sources,  
16 but, in particular, people oftentimes will compare those  
17 items to cities of similar size, cities in a similar area,  
18 and so that's how that information is used.

19 Q All right. And if we go to page 21 of your expert  
20 report, what were your findings in that regard regarding the  
21 Detroit Police Department?

22 A First of all, that the crime rate is five times the  
23 national average. Now, again, that is based on the uniform  
24 crime reporting statistics that the FBI uses, and people  
25 always point out that different departments may report

1 information differently, but certainly there are numerous  
2 publications that support the use of this information, and so  
3 having a crime rate five times the national average certainly  
4 shows that there is a significant amount of improvement that  
5 can and should occur.

6 Q Did you make any findings regarding the citizens'  
7 satisfaction with the police department and what impact that  
8 has?

9 A Yes. In addition to that specifically on the City of  
10 Detroit utilized a study that was performed that rated how  
11 residents viewed the police in four different categories,  
12 response time, officer attributes, process-related elements,  
13 which is how the police performed, and then also problem  
14 resolution.

15 Q Okay. And did you make any findings with respect to  
16 response time for the police department?

17 A Yes. Response time is probably the most difficult item  
18 to compare, and the reason why is because departments report  
19 response time based on different events occurring. Sometimes  
20 it's when the initial call for service comes in. Sometimes  
21 that is when dispatch receives it. Sometimes it's when the  
22 actual officer receives the call. And so it is somewhat  
23 difficult to compare, but one of the items that the police  
24 department utilized is a study that showed or compared  
25 Atlanta -- the City of Atlanta, which from a number of

1 different measurements is a comparable city for Detroit -- it  
2 compared Atlanta to a number of other cities -- viewed 11  
3 minutes as an average response time for priority one calls  
4 and whereas the data that the City of Detroit had been  
5 tracking was approximately 58 minutes.

6 Q Okay. What are some of the factors that contribute to  
7 this relatively poor response time?

8 A There are multiple, and this is really the core issue for  
9 the department. Number one, inadequate numbers of resources  
10 is a big part, but also the level of or lack thereof  
11 technology that is used in the department is a significant  
12 factor. The less information that exists as well as the more  
13 manual processes, the more difficult it is to respond in a  
14 timely manner.

15 Q What findings did you make with respect to case closure  
16 rates?

17 A Case closure was also very deficient, and specifically  
18 the City of Detroit had a case closure rate of approximately  
19 nine percent versus approximately twenty-five percent for  
20 comparable cities.

21 Q What are some of the factors that lead to this  
22 particularly poor case closure rate?

23 A Again, the information is a big part, but, more  
24 importantly, the resources. Without adequate officer  
25 resources, it's very difficult to conduct the investigations

1 that are necessary.

2 Q All right. Let's go back to Table 2-B on Exhibit 620 --  
3 or 619. Mr. Moore, can you explain to the Court -- there we  
4 go -- how the spending that is detailed in 2-B, how that's  
5 going to address the problems and issues that you just  
6 described for the Court?

7 A Yes, I will. I'll just run across the categories here  
8 again, focusing on the police department. Additional  
9 operating expenditures of approximately \$175 million relates  
10 to -- relates primarily to adding approximately 250  
11 officers -- uniformed officers to patrol operations. The way  
12 that that happens is there are a number of -- actually, close  
13 to 300 uniformed officers that are currently performing  
14 duties that civilians can perform, and so what this  
15 initiative actually does is it focuses in on hiring  
16 civilians, which will free up uniformed officers to refer  
17 to -- or to return to patrolling duties.

18 In addition to that, we have fleet expenditures of  
19 approximately \$91 million. The City of Detroit's police  
20 department fleet is in very significant disrepair. There are  
21 a substantial number of vehicles that are over ten years old.  
22 Specifically, approximately 50 percent of the vehicles are  
23 over ten years old. The vehicles very often don't run, and  
24 as a result, that can have a significant impact on just being  
25 able to respond to crimes. This initiative of spending \$91

1 million will get the city back to a fleet replacement cycle  
2 of approximately three and a half to four years, which is  
3 still not best in class by any means. There are a number of  
4 sources that would suggest three years as the typical fleet  
5 replacement cycle, but this would result in a substantial  
6 improvement compared to where the city is right now.

7 Q All right. And let me -- I want to go back. On the 250  
8 administrative positions that you're going to hire civilians  
9 for, that means you're going to free up 250 million (sic)  
10 uniformed officers to go back on patrol; is that right?

11 A 250 uniformed officers to go back on patrol, yes.

12 Q Do you have an understanding as to what approximate  
13 percentage of the total police force that represents?

14 A That would be north of a ten-percent increase in the  
15 force, approximately twelve percent or so.

16 Q Okay. Now, what about the 34.2 million in capital  
17 expenditures? What is that going to do?

18 A I'm actually going to come back to technology since I  
19 didn't address that.

20 Q Okay.

21 A Technology is very important for this police department,  
22 and that really is made up of two primary items. The two  
23 items are, first of all, a replacement of radios, both hand-  
24 helds and vehicle radios, and, secondly, the implementation  
25 of an integrated police information system. Right now the

1 City of Detroit exists in such a manual environment with no  
2 information sharing such that precincts actually don't have  
3 visibility to activities that are occurring in another  
4 precinct. And as we all know, criminals don't contain their  
5 activities to one particular precinct. In addition to that,  
6 not having access to the background information on a  
7 particular individual or a particular address when an officer  
8 goes on a call has an impact, and, lastly, there's a  
9 substantial amount of manual paperwork that occurs. And so  
10 the implementation of an integrated crime system -- or public  
11 safety system, I should say, will improve that greatly. It  
12 will also allow for better management of the department  
13 specifically through how the department is performing, how  
14 individual officers are performing. Right now that data just  
15 really doesn't exist to allow that to happen.

16 MR. HAMILTON: Can we bring up Exhibit -- City  
17 Exhibit 552? Can you blow up the top of it a little bit for  
18 us?

19 BY MR. HAMILTON:

20 Q Mr. Moore, what is this document?

21 A This is the detail behind the approximately \$150 million  
22 in information technology spending as part of the  
23 reinvestment initiatives.

24 Q All right. Who prepared this document?

25 A Conway MacKenzie.



1 Q Okay. And how did you go about preparing this document?

2 A This document was prepared in two ways. Number one,  
3 working very closely with the finance department, the  
4 information technology services department within the city,  
5 Ms. Niblock, as well as the departments themselves.

6 Q All right.

7 MR. HAMILTON: And if I could ask you, sir, to -- if  
8 we could ask to go to the -- which page is it -- page -- the  
9 bottom of page 3, and -- yeah -- you could blow up that last  
10 category under "police." There you go. All right.

11 BY MR. HAMILTON:

12 Q And does this reflect the information technology  
13 initiatives with respect to the police department that you  
14 were talking about?

15 A Yes, sir.

16 Q And are the -- where is the car radios you were talking  
17 about in there?

18 A If you scroll to the right, you can see that -- go all  
19 the way over to the total -- of the \$38.4 million, the row  
20 just above that, \$22 million, relates to the radios, and then  
21 the second line down -- and you can scroll back to the  
22 left -- refers to the information system.

23 Q All right.

24 A The other items are very important as well, just the  
25 dollar amounts are not nearly as significant as those two

1 items.

2 Q And how did you go about, in particular, determining that  
3 these particular items for the police department were  
4 necessary?

5 A We worked very closely with Chief Craig and his staff to  
6 develop this chart.

7 Q Okay. All right. Let's go back to Exhibit 619, Table 2-  
8 B. And let me ask you, sir, now about the capital  
9 improvements spending for the police department.

10 A Yes. As you can see on Table 2-B under capital  
11 expenditures, there's \$34.2 million that is contemplated to  
12 be spent, and that actually relates to both existing  
13 facilities as well as three new precincts that are  
14 anticipated to be opened, and so these are -- what's  
15 important to understand is on the reinvestment initiatives,  
16 while it would sometimes appear that the city is spending all  
17 new money, in many instances these are just normal repairs  
18 that have to happen to a facility. There are a number of  
19 facilities that are in such disrepair, the entranceways are  
20 crumbling, they have to be repaired, and that's what this  
21 money includes.

22 Q All right. So do you know -- do you have in your head  
23 approximately how much of the 34 million is for the critical  
24 repair and maintenance of existing facilities?

25 A Yes. Approximately 24 of that is related to existing

1 facilities.

2 Q And then I believe you said you also are proposing the  
3 creation of three new facilities?

4 A Yes, and that is approximately seven million, and the  
5 difference is related to a training facility.

6 Q And is that a new training facility?

7 A Yes, it is.

8 Q Why are you -- why are you proposing to build a new  
9 training facility?

10 A The existing training facility is in significant  
11 disrepair.

12 Q All right. Let's move to the fire department. What  
13 findings did you make with respect to the current level of  
14 service by the fire department?

15 A As compared to the police department, the fire department  
16 has a few more recognized standards that people agree upon.  
17 Very often the NPFA, National -- or NFPA, National Fire  
18 Protection Association, I think the PA is, publishes  
19 standards, and the city's fire department is not up to those  
20 standards.

21 Q Do you have approximate -- what was the range of the  
22 deviation between the standards and the city's current  
23 performance?

24 A Sure. One of the items that gets looked at is response  
25 time. Clearly when you are talking about fire-fighting

1 operations and EMS operations, response time is absolutely  
2 key, and in that regard, the city's response times were nine  
3 minutes and eighteen minutes, twenty seconds for fire-  
4 fighting and EMS respectively. The NFPA standards would be  
5 approximately six minutes for both.

6 Q What are some of the factors that contribute to this  
7 relatively poor response time?

8 A The department has shrunk significantly, so it's lack of  
9 resources, but also lack of equipment to actually be able to  
10 respond to the emergencies. The condition of the fleet needs  
11 significant overhaul, and so part of the reinvestment  
12 addresses those issues.

13 Q All right. Is there a similar problem with information  
14 technology for the fire department?

15 A Yes. And as part of the implementation of a public  
16 safety -- integrated public safety system, the fire  
17 department benefits by that as well.

18 Q What is the problem with the current IT system for the  
19 fire department?

20 A There are major deficiencies with the fire department  
21 such that one of my colleagues that has focused a significant  
22 amount of his time on the fire department and has spent time  
23 at the stations has commented to me that a -- the way that  
24 this station receives calls is they put a pop can next to a  
25 fax machine such that when paper comes out of the fax

1 machine, it will knock over the pop can, and people will be  
2 aware that there is something that needs to be responded to.

3 Q All right. Let's go back to Exhibit 619, Table 2-B, and  
4 could you describe for the Court how the expenditures that  
5 are reflected here will address these problems?

6 A Yes. Again, reading across, the additional operating  
7 expenses, first of all, involve higher resources that will be  
8 hired by the department offset by a couple of items. Number  
9 one, as attrition occurs, there will be savings, but also  
10 savings as a result of moving towards a multidisciplinary  
11 department.

12 Q And, again, you said earlier what that is. Could you --  
13 what do you mean by multidisciplinary?

14 A Yes. It means cross-training and cross utilization of  
15 both fire and EMS resources. Continuing on then to fleet,  
16 there's approximately \$59 million that is anticipated to be  
17 spent on fleet during this period, and the fleet essentially  
18 boils down to a replacement of the different types of  
19 vehicles. On average, there's about 17 vehicles that are  
20 anticipated to be purchased per year during this time period.  
21 Some of -- there are -- within the police -- or the fire  
22 department, there are significantly different types of  
23 vehicles. You're talking about very large rigs versus  
24 smaller vehicles, if you will, and so on average we're  
25 talking about 17 vehicles per year that will be purchased as

1 part of that \$59 million.

2 Q All right.

3 A Technology is a smaller amount, but this specifically  
4 relates to the public -- integrated public safety system.

5 Q On the fleet, what percentage of the fire engines are  
6 going to be replaced in fiscal year 2015? Do you know?

7 A Yes. Approximately 30 percent will be replaced in fiscal  
8 year 2015, so that's a great start to this with a third being  
9 replaced. And then it's approximately 12 percent per year  
10 thereafter.

11 Q All right. Let's talk about the capital expenditures.  
12 Can you describe what those are?

13 A Yes. On the capital expenditures, there are a number of  
14 additional facilities that have to be repaired or replaced.  
15 This is something that has been talked about quite a bit.  
16 Many of the older facilities were not meant to or not built  
17 to accommodate today's equipment, and so they have to be  
18 brought up to speed plus, as the population shifts, in order  
19 to be able to adhere to NFPA standards, where fire houses are  
20 located is very important. This is something that -- the  
21 reinvestment plan addresses that, making sure that there are  
22 the right stations in the right places in order to have  
23 response times according to how the city exists today.

24 Q Is there also a portion of this that goes to repairing  
25 and maintaining existing facilities?

1 A Yes. Approximately \$30 million goes towards replacing --  
2 or I should say repairing existing facilities.

3 Q What about new equipment like coats and boots and things  
4 like that? What is that?

5 A Yes. Approximately \$20 million of this relates to what  
6 you would refer to as generally equipment --

7 Q All right.

8 A -- apparatus-type of equipment.

9 Q Making those capital expenditures is -- do you have an  
10 opinion as to whether that'll have any impact at all on  
11 morale?

12 A Certainly. I know from many discussions with the fire  
13 department this has been somewhat of a bittersweet process  
14 from the standpoint of, on the one hand, certainly having  
15 additional equipment -- better equipment, being able to  
16 respond and do their jobs better is a positive, but they also  
17 recognize that the Chapter 9 process has been difficult on  
18 employees, and so, as I mentioned, it will improve the  
19 morale, but it also has been very difficult for the  
20 employees.

21 Q That last line on reorg has 300,000 bucks for the fire  
22 department. Do you know what that is?

23 A Yes. The \$300,000 was actually -- this is a cost that's  
24 already been incurred -- related to the utilization of that  
25 subject matter expert that I referred to earlier, TriData.

1 Q All right. And TriData, that was to help with making the  
2 fire department force multidisciplinary?

3 A Yes.

4 Q All right. What cost reductions are expected as a result  
5 of these public safety initiatives?

6 A From a -- if we can go back to Table 2-A, there are very  
7 significant cost reductions that are contemplated in the  
8 public safety initiatives, approximately \$150 million of cost  
9 reductions, and the first item relates to police, 87 --  
10 almost \$88 million, and really what that relates to are labor  
11 efficiencies and attrition, attrition from the standpoint of  
12 newer officers coming on at a -- at the lower tier of the pay  
13 scale, and then, secondly, as attrition occurs and as a  
14 public safety -- integrated public safety system is  
15 implemented, it will allow for fewer administrative resources  
16 necessary. So while there's not contemplated to be a  
17 reduction in uniformed officers, per se, from an  
18 administrative and support standpoint, we anticipate that  
19 we're going to be able to realize efficiencies there.

20 Q Can you explain what the opportunities are for revenue  
21 enhancements as a result of these initiatives?

22 A Yes. As I had indicated earlier, we tried to turn over  
23 every rock to understand how the departments are operating  
24 right now as well as opportunities they may have for whether  
25 it's either collecting better or charging for services that



1 they may not be charging for, and this area one of the things  
2 that we really had focused in on are charging for services as  
3 well as where services are being charged for, doing a better  
4 job of collecting, and so this includes false alarms and  
5 various items that cause the department to undertake runs for  
6 incorrect or erroneous reasons.

7 Q Those figures, the 32 and 87, does it also include some  
8 grant money?

9 A Yes. That's correct. Under the fire department, the \$87  
10 million contemplates additional grant money. There is what  
11 is referred to as a SAFER grant, and that is approximately  
12 \$24 million. The city receives -- or, yeah, the city  
13 receives that now, and it is anticipated that it will get  
14 another round of SAFER grant funding through the fire  
15 department.

16 Q Are there any grants from the federal government in those  
17 figures?

18 A Yes. So there's a total amount of grant money from the  
19 fire department. We could go back to Exhibit 626 for the  
20 specific amount, but there are a number of grant-related  
21 items that total, I believe, near \$40 million or so.

22 Q All right. So if we were to go back -- let's go back to  
23 Exhibit 626 so we know how to do this. Let's find it in 626  
24 where you get that detail.

25 A So if you look at the top here, we have DFD, which stands

1 for Detroit Fire Department. The third line down assumes  
2 ability to receive SAFER grant funding in fiscal year 2017  
3 and 2018 and continued access to \$2 million from FEMA, and so  
4 if you scroll all the way to the right, you see that we have  
5 \$44.8 million in grant funding as part of the revenue that we  
6 are trying to get for the Detroit Fire Department.

7 Q All right. So the detail for the summary figures on the  
8 previous exhibit you can find here on 626; is that right?

9 A That's correct.

10 Q Okay. All right. Let's talk about the third group of  
11 initiatives, the resident service initiatives. Can you tell  
12 the Court what those are?

13 A The resident service initiatives are focused on those  
14 departments that have the front-facing impact on residents.  
15 Clearly public safety does as well, but these are nonpublic  
16 safety-related resident service initiatives. The biggest  
17 areas that are involved in the resident service initiatives  
18 are the Department of Transportation and recreation. With  
19 both of those, significant investment is contemplated.

20 Q All right. Let's walk through this. Let's bring up  
21 again 619, Tables 3-A and 3-B. Mr. Moore, what does this  
22 chart show?

23 A Table 3-A lays out the various categories of reinvestment  
24 for the resident service initiative departments, the  
25 Department of Transportation, ombudsperson, public works,

1 recreation, and vital records. And as you can see, we have,  
2 again, the main categories of investment, cost savings, and  
3 revenue initiatives.

4 Q And then 3-B provides more detail?

5 A Yes. 3-B is the detail of the 171, approximately, in  
6 investment.

7 Q All right. And clearly the largest expenditure here is  
8 for the Detroit Department of Transportation. Why do they  
9 need such a substantial investment?

10 A The Department of Transportation has had a number of  
11 issues over the years. First of all, if you compare how the  
12 department is operating today to, say, four or five years  
13 ago, the number of miles serviced, which is a significant  
14 measurement of what service is being provided to residents,  
15 has shrunk significantly. It has gone from in approximately  
16 2009 over 16 million miles on an annual basis down to  
17 approximately 12 million miles now. As part of the mayor's  
18 initiatives, this contemplates getting that annual service  
19 back up close to 2009 levels, so the reinvestment plan  
20 contemplates that by the end, by fiscal year 2023, that there  
21 will be just north of 16 million miles serviced under the  
22 Department of Transportation.

23 Q What is the targeted service level for the number of  
24 busses that is available during the afternoon peak hours?

25 A The current studies indicate that the department needs

1 about 225 to 230 buses for peak times in the afternoons.

2 Q What does it have now?

3 A Unfortunately, right now it's only about 190 or so, and  
4 as a result of that, there are just -- even though there are  
5 routes being driven, when there are not buses available,  
6 those routes don't get picked up.

7 Q Are there safety concerns?

8 A Yes. The Department of Transportation has had numerous  
9 safety issues for a variety of reasons. There have been  
10 safety issues related to the riders from other riders. There  
11 have been safety issues related to the drivers from riders.  
12 There are safety issues as it relates to Workers'  
13 Compensation claims, and so a big part of the investment for  
14 the Department of Transportation, in addition to expanding  
15 the service, is to also focus in on addressing those safety  
16 issues.

17 Q Do you have an understanding as to approximately how many  
18 bus operators were assaulted during the fall of 2013?

19 A Yes. I think that that was -- it was somewhere in the  
20 neighborhood of -- I think it was five operators were  
21 assaulted just in the fall alone.

22 Q And by "assaulted," we're -- do you know what some of the  
23 severity was on those?

24 A Yes. Specifically, two of those five incidents were  
25 stabbings.

1 Q Do you have an understanding as to what the -- how many  
2 911 calls bus operators average when they ask for police  
3 assistance?

4 A There's approximately 30 911 calls per month by bus  
5 drivers.

6 Q All right. Let's take a look at Table 3-B, and will you  
7 describe for the Court how the spending that's detailed here  
8 will address these issues?

9 A As you can see under "additional operating expenses" of  
10 approximately \$101 million, that's made up of a few main  
11 categories, and I can read off or we can go to Exhibit 626.

12 Q Let's go to 626. Let's bring it up.

13 A And if you can go down, next page -- I believe it's on  
14 page 3 -- 4. Okay. Down at the bottom, if you expand that,  
15 these are all of the projects here that specifically are  
16 related to DDOT, so what I'll first focus in on is about  
17 halfway down where it says DDOT-fuel, maintenance parts and  
18 supplies. These are where the additional operating  
19 expenditures begin. As you can imagine, as the service  
20 expands, there's going to be higher costs for fuel,  
21 maintenance, parts and supplies, so that's a fairly  
22 significant increase. And then there are additional drivers  
23 that are needed as well as security forces that are  
24 contemplated within this, so those first two line items -- or  
25 I should say those two line items, fuel, maintenance, and

1 then headcount increase, if you scroll to the right, you see  
2 that those two line items alone total approximately \$87  
3 million.

4 Q Could you describe a little bit more the -- when you say  
5 security force, what is particularly contemplated there?

6 A From a security standpoint, there are two ways that we've  
7 looked at this. One is the installation of cameras on  
8 busses, which is an initiative that's already occurred, and  
9 then the other item relates to actually having a safety force  
10 within the Department of Transportation to actually be on the  
11 buses.

12 Q So that involves hiring more people?

13 A Yes, it does.

14 Q All right. What have you got on capital expenditures  
15 here for the -- to solve the problems for the Department of  
16 Transportation?

17 A Sure. From a capital standpoint, you see up above all of  
18 the various capital expenditures -- while these are not  
19 extreme dollar amounts compared to the additional operating  
20 expenditures, we do have facility improvements on all of  
21 those categories such that there's about \$10 million being  
22 spent to improve the existing facilities.

23 Q Can we go back to Table 3-A on Exhibit 619, and can you  
24 describe for the Court the cost savings for the Department of  
25 Transportation if we make these initiatives?

1 A One of the biggest areas for cost savings within the  
2 Department of Transportation is a reduction in overtime.  
3 Right now substantial amounts get paid towards overtime.  
4 Having the right number of workers, first of all, as well as  
5 a better fleet so that there are not so many emergencies  
6 going on to try to get buses on the road will cut down on the  
7 overtime quite significantly. If you go back to 626, we can  
8 cover off a few of the others. In addition to that, there is  
9 also, if you see the labor cost savings-reduction in overtime  
10 and you scroll to the right, so labor cost savings, reduction  
11 in overtime, yes --

12 Q Could we go to the right and get the total?

13 A It's approximately, if I recall correctly, \$50 million  
14 that's contemplated as it relates to the efficiencies from  
15 both reduced overtime as well as -- this is mainly in the  
16 mechanic area -- improved operations.

17 Q Are there things that are called risk management savings?

18 A Yes. Risk management is a very important part of the  
19 city's overall initiatives. There have been Workers'  
20 Compensation audits that have uncovered significant amounts  
21 of fraud, and so we have Workers' Compensation savings in  
22 multiple areas within the Department of Transportation.  
23 Specifically, we've included approximately \$18 million in  
24 contemplated savings related to Workers' Compensation.

25 Q All right. And if we can go back to Exhibit 619 and

1 Table 3-A, I want to ask you about if you could tell the  
2 Court the basis for the revenue initiatives figure of  
3 approximately 51.4 million.

4 A Yes.

5 Q What does that refer to?

6 A And I may have misspoken. I was going off memory. The  
7 risk management savings may be approximately \$14 million as  
8 compared to the 18 million that I mentioned. As it relates  
9 to revenue initiatives, there are two primary drivers of  
10 this. Number one, as the routes are increased, that will  
11 result in more revenue, but the other item is this  
12 contemplates fare increases. Right now, while there are  
13 different types of bus fares that you can buy, on average,  
14 it's approximately \$1.50 per fare, and this contemplates in a  
15 step fashion that by the end of fiscal year 2023 the fare  
16 will be 2.50.

17 Q All right. Are there any offsets to the increased  
18 revenues that you're going to get from increased bus services  
19 and increased fares?

20 A Yes. What is, unfortunately, not made all too clear  
21 here, that \$51.4 million is a net number. The two items that  
22 I mentioned both from the increased number of routes as well  
23 as increased fares are anticipated to generate over \$118  
24 million during this time period. Unfortunately, the  
25 Department of Transportation is being impacted by changes in



1 Act 51 revenue, which is allocated to the Department of  
2 Transportation as well as SMART and the Detroit  
3 Transportation Center. These Act 51 dollars are anticipated  
4 to actually decline or result in a decline of approximately  
5 \$65 million in revenue for the Department of Transportation  
6 during this time period.

7 Q Mr. Moore, just for the benefit of anybody that may  
8 eventually review this transcript that doesn't know what Act  
9 51 is, can you tell the Court what is Act 51?

10 A These are state dollars that are allocated to the three  
11 transportation authorities that I mentioned, and I use the  
12 word "authorities" not as they are specifically authorities.  
13 We know the Department of Transportation is not an authority.  
14 Maybe "agency" would be a better word, but it is based on a  
15 variety of factors, and specifically with the Department of  
16 Transportation and how it is operating right now, SEMCOG in  
17 2013 allocated far more dollars -- state dollars to the SMART  
18 system than the Department of Transportation.

19 Q And I can try and guess, but can you tell us what SEMCOG  
20 is an acronym for?

21 A Yes. It stands for Southeastern Michigan Council of  
22 Governments.

23 Q And SEMCOG, what do they decide?

24 A The allocation between the three different departments.

25 Q All right. Let's leave the Department of Transportation.

1 Let's go to Table 3-A again, and let me ask you why do the --  
2 why are you proposing reinvestment initiatives of 37.8  
3 million for the parks and recreation department?

4 A This is another very significant initiative for the  
5 mayor, and what this specifically involves is reopening a  
6 number of -- hundreds of closed parks. The city has just  
7 over 300 parks as well as some recreation centers as well,  
8 and over the last several years, as budget cuts have  
9 occurred, a number of those, approximately 200 parks, have  
10 actually closed down. As part of, again, one of the mayor's  
11 major initiatives, this contemplates reopening all of those  
12 parks. This is one of those items that the mayor has  
13 indicated is very important for the livelihood of the  
14 residents in the neighborhoods, and as part of reopening  
15 those parks, there is a level of investment that's required.

16 Q Why do the reinvestment initiatives that you're proposing  
17 include nearly \$15 million for the ombudsman's office?

18 A The ombudsman -- or ombudsperson office specifically  
19 relates to the implementation of a 311 system. Right now the  
20 city doesn't have very good ways for residents to report  
21 issues as well as to track issues. There are a number of  
22 cities that have demonstrated significant benefits from the  
23 implementation of a 311 system.

24 Q What is a 311 system? What do you mean by that?

25 A This is a system that allows residents or anyone, for

1 that matter, to report issues. They can report any type of  
2 issue, but it's to allow the city to have visibility to the  
3 fact that an issue does exist and then to process that  
4 issue -- or process a solution for the issue.

5 Q Why is it called a 311 system?

6 A That relates to information.

7 Q Okay. Why do the reinvestment initiatives include a  
8 nearly \$7 million investment in the Department of Health &  
9 Wellness?

10 A One of the reinvestment initiatives that we've already  
11 undertaken is to transfer the function of the vital records  
12 department from the city to Wayne County. This is a great  
13 example where there was tremendous duplication of services.  
14 That was concluded in January of 2014. The building in which  
15 the vital records department had been housed, the Herman  
16 Kiefer Building, is essentially no longer used, and so this  
17 relates to temporarily some security costs for the Herman  
18 Kiefer building as well as the eventual demolition of that  
19 building.

20 Q And approximately how much is going to be spent to  
21 demolish that building?

22 A Just over \$5 million.

23 Q Is there additional investment that's required by HIPAA  
24 with respect to the historical records?

25 A That's -- yes. That's the other part of the investment,

1 which is in order to be compliant with HIPAA, there's  
2 approximately \$1.8 million required.

3 Q All right. Let's knock off Number 4, the fourth opinion  
4 you had on the business service initiatives. Can you  
5 describe for the Court what the business service initiatives  
6 are?

7 A These are the departments of the city through which  
8 businesses primarily interact. You have the Planning and  
9 Development Department. You have Building Safety Engineering  
10 and Environmental Department, which I'll keep -- from now on  
11 I'll refer to as BSEED. You have the airport. You have  
12 municipal parking, and you also have the Board of Zoning  
13 Appeals and Administrative Hearings.

14 Q All right. What does the city rely upon these  
15 departments to do?

16 A These departments provide multiple functions. Number  
17 one, the overall planning for the city as well as the  
18 permitting and licensing of businesses as well as monitoring  
19 how businesses operate within the city.

20 Q All right.

21 MR. HAMILTON: Can we bring up again on Exhibit 619  
22 now Tables 4-A and 4-B?

23 BY MR. HAMILTON:

24 Q And, again, Mr. Moore, it's the same format. What do  
25 those tables show?

1 A This shows that there's approximately \$51 million in  
2 investment across the departments related to business  
3 services, and then offsetting that we have cost savings of  
4 \$24 million and revenue initiatives of approximately \$62  
5 million.

6 Q All right. And the largest item is the Planning and  
7 Development Department of 22-1/2 million. Why does that --  
8 why does the planning department need \$22-1/2 million?

9 A The planning department actually has multiple items  
10 happening within that area. The first item is is that there  
11 is quite a bit of duplication that has existed within the  
12 city related to planning. You have the City Planning  
13 Commission, which is part of city council, and then you have  
14 a separate Planning and Development Department. These  
15 initiatives contemplate those being combined so to eliminate  
16 the redundancies that have existed before, and as a result,  
17 you have some additional costs coming into play here. In  
18 addition to that --

19 Q Who's responsible for maintaining the city's master plan?

20 A And that's part of the thing. The key element of the  
21 Planning and Development Department going forward is to have  
22 consistency of who is responsible. In the past, the city has  
23 been -- or the master plan has been maintained by the City  
24 Planning Commission. What we have going on as this goes  
25 forward is a new master plan being developed as part of the

1 initiatives.

2 Q You have 11.6 million in additional operating expenses  
3 for the planning department. What does that refer to? I'm  
4 sorry. Table 4-B.

5 A Yes, 4-B. By the way, Mr. Hamilton, I think I may have  
6 just misspoke if I said that the master plan is maintained by  
7 the City Planning Commission. I meant the Planning and  
8 Development Department.

9 Q All right. All right. So additional operating expenses  
10 of 11.6, what does that refer to?

11 A This relates to, again, the additional labor and benefits  
12 according to centralizing and combining these operations, so  
13 bringing the City Planning Commission into the Planning and  
14 Development Department, and then, as you can see -- so those  
15 are labor and benefits. And I'll just cover under the  
16 reorganization because it's a fairly large amount, half of  
17 the \$22 million investment, that reorganization relates to  
18 updating the master plan, so this is a one-time item, but  
19 it's a very important item. And as part of that, that is  
20 going to incorporate the Detroit Future City study that has  
21 been conducted, and that certainly is being utilized by the  
22 city, and also making sure that all future blight removal  
23 efforts, location planning with the fire department, the  
24 police department, all of that comes together, so having an  
25 updated master plan right now is a really critical step.

1 Q All right. If we can go back to 4-A, Table 4-A, you have  
2 cost savings here for the Planning and Development Department  
3 of 1.9 million. What does that refer to?

4 A The cost savings, I believe, are primarily related to the  
5 efficiencies that are anticipated to be realized by  
6 consolidating space and consolidating the departments.

7 Q Right. Is the planning department going to move its  
8 physical location?

9 A Yes. They will be moving into the Coleman A. Young  
10 Municipal Center, and that is the savings that will result  
11 out of the \$1.9 million.

12 Q Why are you proposing that we reinvest 20 -- almost 20  
13 million bucks in the airport?

14 A The investment in the airport is made up of a few items.  
15 Number one, there are elements that are critical in order to  
16 maintain the airport's operating certificate. In addition to  
17 that, however, the airport is also contemplating essentially  
18 developing a plan. The expenditures that are listed here,  
19 the \$15.7 million, are to update the facilities that are  
20 there, add additional executive bays. Most of that will  
21 occur after updating a master plan for the airport. There  
22 are a variety of potential uses for the airport. What this  
23 investment really gets to, though, is the assumed continued  
24 operation of the airport and the items that are necessary for  
25 it to maintain its operating certificate.

1 Q And can you expand upon that? What do you mean by  
2 "necessary to maintain its operating certificate"?

3 A Sure. The airport under the FAA has to comply with  
4 federal guidelines, and, in particular, the airport operating  
5 certificate is to ensure that there is a level of safety that  
6 is involved with the operation of the airport.

7 Q Okay. Can we go back to Table 4-A? Let me ask you why  
8 have you determined that a \$8 million investment for  
9 municipal parking is needed?

10 A The municipal parking -- the real story on municipal  
11 parking relates to the revenue, but in order to achieve the  
12 level of revenue increases that we're looking at, there are a  
13 number of updates that have to happen. There are a number of  
14 stories that people will read about the condition of the  
15 Caniff impound lot, the condition of the meters, the parking  
16 meters, and whether they're operable, the condition of the  
17 vehicles that are used by the parking violation bureau  
18 individuals, and so this \$8.2 million is meant to address all  
19 of those areas.

20 Q Let me ask you, sir, does the municipal parking  
21 department, does it have one or two divisions?

22 A It has two actually.

23 Q What are the divisions?

24 A So the first division is what is referred to as an  
25 enterprise fund, and that's the auto parking system's



1 division. And the best way to think about that is that  
2 encompasses the seven garages that the city owns.

3 Q All right. So is the -- and you say that's an enterprise  
4 fund; is that right?

5 A That's right.

6 Q All right. Is any of this money here in the  
7 restructuring initiatives related to that enterprise fund?

8 A No. The auto parking systems is outside of the  
9 reinvestment initiatives. The reinvestment initiatives deal  
10 solely with the other division within parking, which is the  
11 parking violations bureau.

12 Q All right. And you started to allude to them, but can  
13 you describe for the Court the problems that have -- that the  
14 parking violations bureau has been experiencing over the last  
15 several years?

16 A The parking violation bureau has had issues both with the  
17 condition of -- I'll call it facilities and fleet as well as  
18 work performance. As I indicated, the Caniff impound lot is  
19 in very bad shape and needs -- it's a real safety concern, so  
20 it needs a number of improvements, and we've contemplated \$2  
21 million. In addition to that, as I mentioned, vehicles for  
22 the violations individuals to use are -- needed repair, but  
23 the other part actually relates to the resources, the labor.  
24 In the past, the department has had very high absenteeism.

25 Q When you say "very high," what do you mean?

1 A We're talking on any given day 30 to 40 percent. And so  
2 with that said, obviously the driver of revenue in this  
3 department is the ability to actually issue tickets, so  
4 having -- not only addressing work performance but also  
5 having an adequate number of -- and I hesitate to use the  
6 word, but meter maids essentially going around is very  
7 important. So with that said, these investment initiatives  
8 contemplate if we expand the investment or Table 4-B, we have  
9 additional labor occurring under the additional operating  
10 expenses for more ticket writers, and then we also address  
11 the fleet and the Caniff impound lot through the 1.4 million  
12 and the \$2 million.

13 Q All right. And who's DESMAN Associates?

14 A DESMAN is a parking consultant that was engaged in  
15 earlier 2014. What's important to recognize is that the  
16 reinvestment initiatives for the municipal parking department  
17 that we have contemplated here contemplate the city's  
18 continued ownership of the municipal parking department, and  
19 so these initiatives maximize the operations of the municipal  
20 parking department. The city is also exploring other options  
21 related to the municipal parking department. DESMAN &  
22 Associates is essentially an investment banking type of  
23 business that was engaged by the city to evaluate other uses  
24 or other alternatives for the municipal parking department.  
25 The reinvestment initiatives, again, specifically contemplate

1 the continued ownership and operation of the municipal  
2 parking department by the city.

3 Q All right. And is the cost of retaining DESMAN  
4 Associates, is that included in there in the 4.8?

5 A Yes, it is.

6 Q Okay. What is the projected revenue increase that  
7 results from this \$8 million investment in the parkings  
8 violation bureau?

9 A This is a substantial source of additional revenue for  
10 the city. There's approximately \$60 million in additional  
11 revenue that is anticipated to be generated. What's  
12 important to note is that this comes from two sources. One  
13 is the -- a higher number of individuals that are writing  
14 tickets, but then also an increase in the fine amount. The  
15 latter of those two has already been implemented. With  
16 additional funding, the city contemplates adding resources to  
17 issue more tickets.

18 MR. HAMILTON: Your Honor, that knocks off the first  
19 four initiatives. This would be a good time to break for  
20 lunch.

21 THE COURT: All right. Thank you. We will take a  
22 break now and reconvene at 1:30, please. Okay. One second  
23 before you all leave, please. As with this morning, the  
24 building is expecting an additional 150 jurors into the  
25 building at the same time you will be coming back from lunch,

1 so eat fast. And if any of you get delayed, you know, as a  
2 courtesy, we will wait for you. And we'll be in recess.

3 THE CLERK: All rise. Court is in recess.

4 (Recess at 11:59 a.m., until 1:30 p.m.)

5 THE CLERK: All rise. Court is in session. Please  
6 be seated.

7 MR. HAMILTON: I think everybody is here, your  
8 Honor.

9 THE COURT: Looks like it. You may proceed, sir.

10 BY MR. HAMILTON:

11 Q Good afternoon, Mr. Moore.

12 A Good afternoon.

13 Q The Court gave you a homework assignment to complete over  
14 the lunch hour. Did you do that?

15 A I did.

16 Q Up on the screen is Exhibit 519. Can you explain what  
17 you learned in completing your homework assignment on the POC  
18 reversements that's under the line -- like the fifth line  
19 down under "uses"?

20 A Yes. I think what I'd like to do is just expand on my  
21 answer. What I had indicated, your Honor, is this is money  
22 that would be going out related to the certificates of  
23 participation. Really what it is, it's meant to reverse an  
24 element that is in the sources in the surplus of baseline  
25 operations. These are reimbursements from other funds, so

1 right now the top line under the sources have money in that  
2 line coming from other funds related to the certificates of  
3 participation. Rather than taking it out of that section,  
4 this is where it comes out so that there is not money coming  
5 from other funds included in the sources of cash available to  
6 the city.

7 THE COURT: And what are those other funds?

8 THE WITNESS: They are primarily the water and sewer  
9 fund, porking fund, and then library.

10 THE COURT: Thank you.

11 BY MR. HAMILTON:

12 Q All right. Mr. Moore, we left off at the lunch break.  
13 We finished the first four initiatives. Let's go to Number  
14 5, which is the organizational efficiency initiatives. Can  
15 you generally describe for the Court what is grouped into  
16 that category of initiatives?

17 A These are the initiatives that relate to what many times  
18 people will refer to as back office-type operations, but  
19 there's another area which I wouldn't necessarily consider  
20 back office, and that's the general services division.  
21 That -- or department. That combined with all of these other  
22 areas really provide the support for the city's operations.

23 Q All right.

24 MR. HAMILTON: Can we bring up Exhibit 619 again and  
25 this time on page 10 Table 5-A?

1 BY MR. HAMILTON:

2 Q What does this chart show, Mr. Moore?

3 A Consistent with the other initiatives, other categories  
4 of initiatives, it shows the departments that fall under the  
5 organizational efficiency initiatives. Within the finance  
6 department there are a total of nine divisions, so you see a  
7 subtotal for finance, and then we have the other divisions --  
8 or departments there, the general services department, human  
9 resources and labor relations departments, law, office of the  
10 auditor general as well as the inspector general, department  
11 of elections and the human rights department.

12 Q All right. And you show a total down there at the bottom  
13 of -- investments of about 480 million. Why is it important  
14 to make this level investment in these particular departments  
15 generally?

16 A This is really the crux of having the city operate more  
17 effectively. We talked earlier about initiatives in the  
18 areas of blight as well as public safety, and while those are  
19 absolutely critical, those are improving services directly  
20 for residents or businesses, citizens in general. This is  
21 how the city is going to improve how it operates.

22 Q All right. And what are the total cost savings that are  
23 projected for making these initiatives for these departments?

24 A There's a total of \$109 million in cost savings that are  
25 contemplated as a result of these reinvestment initiatives.

1 Q What is the incremental revenues that are anticipated  
2 from implementing these particular initiatives?

3 A Approximately \$98 million in incremental revenue from the  
4 reinvestment initiatives.

5 Q All right. Now, we'll get to finance a little bit later.  
6 Let's start with the General Services Department. You've got  
7 \$184 million going into that department. Why?

8 A This is an area that essentially provides support. It's  
9 been in existence since about 2006. It provides all of the  
10 fleet and facilities support across departments in the city.  
11 It has gone through significant budget reductions over the  
12 last few years. Just a few years back, we had north of 600  
13 people in that department, and it is well under half of that  
14 now, about a third of those people now, and so as a result of  
15 that few -- much fewer number of people, the general  
16 activities of that department, which would include  
17 maintaining vehicles, just are not able to get done,  
18 maintaining parks --

19 Q Can you describe some of the challenges that department  
20 is facing right now for the Court?

21 A One of the areas, as I mentioned, is on fleet  
22 maintenance. There are so many vehicles that are past their  
23 useful life that there would normally be a number of  
24 activities and time that would have to be spent, but when you  
25 have those two things going on, that the equipment itself is

1 very aged, and at the same time you've cut your staff down to  
2 a third, they just can't perform the necessary functions that  
3 the department needs to do.

4 Q Are you familiar with something called the Fire Apparatus  
5 Division?

6 A Yes, sir.

7 Q And where is that now?

8 A That is now -- that is -- responsibility for maintaining  
9 fire vehicles, that has been transferred into the General  
10 Services Department.

11 Q And when it was transferred to the General Services  
12 Department, did it bring anything with it in terms of like  
13 deferred expenses?

14 A Yes. The department is barely able to do critical  
15 maintenance, and as a result there's no preventative  
16 maintenance that's going on at all right now, so that creates  
17 a lot of deferred maintenance, and at the time that this  
18 division was transferred into general services, there was  
19 about \$500,000 of just deferred maintenance that was needed  
20 setting aside any sort of preventative maintenance program.

21 Q Earlier you testified about the mayor's initiative to  
22 reopen all of the city's parks. Does that have any impact on  
23 the General Service Department?

24 A It does. That also would significantly increase the load  
25 on the General Services Department because it is the workers



1 in that department that would have to maintain the parks.

2 Q All right.

3 MR. HAMILTON: If we can bring up Table 5-B on this  
4 exhibit.

5 BY MR. HAMILTON:

6 Q Can you tell the Court how the reinvestment initiatives  
7 that you've set forth or summarized here will improve the  
8 operations of the General Services Department?

9 A The biggest area that you can see is on the additional  
10 operating expenditures, and for general services that's  
11 \$127.3 million. There are really two primary items that  
12 drive that. One is additional labor, and much of that is  
13 actually seasonal labor to maintain the various parks and  
14 other items that have to be maintained by the city.

15 Q Can you give the Court approximately how much additional  
16 full-time employee -- or not full -- but employees are needed  
17 to do that?

18 A The plan contemplates adding approximately 122 full-time  
19 equivalents.

20 Q Okay. And what's the approximate cost that's reflected  
21 in this chart?

22 A During this period and as part of that \$127 million,  
23 there's about \$63 million in additional labor-related costs.

24 Q Okay. And then the other 60-some-odd million, what's  
25 that for?

1 A This is generally considered supplies, so nonlabor-  
2 related expenditures. Certainly the additional parks will  
3 drive some of that, but that also is approximately \$61  
4 million.

5 Q And you've got a little over 40 million in capital  
6 expenditures. What's that relate to?

7 A This is actually related to facilities. We have  
8 included -- and I discussed before -- some facility-related  
9 improvements in the -- for the public safety buildings. This  
10 is for other facilities of the city, and this also includes  
11 some aspect of space consolidation.

12 Q And why does space consolidation require the expenditure  
13 of money?

14 A As we consolidate, sometimes there is a build-out of  
15 space that's required.

16 Q Is there a comparable or related cost savings that  
17 results from that?

18 A Yes. And typically what we would look to do is we would  
19 like to have -- the only reason why the city would undertake  
20 space consolidation is if -- and it depends on over what  
21 period of time -- there would be savings as a result of no  
22 longer having that, and in our plan we certainly have  
23 specific instances. One is savings of about \$10 million  
24 related to space consolidation.

25 Q All right. And then under fleet for General Services

1 Department you have 16 million -- 16.1 million. What's that  
2 relate to?

3 A And so the \$16 million under fleet is really to include  
4 ground maintenance vehicles and other nonpublic safety-  
5 related fleet vehicles.

6 Q And what kind of vehicles are those?

7 A This could be trucks. It could be anything to do with  
8 maintaining parks, those types of vehicles.

9 Q All right. If we could go back to Table 5-A, what is the  
10 projected revenue increase that results for the investments  
11 in the General Services Department?

12 A So, as you see on Table 5-A, there's approximately \$26  
13 million in additional revenue initiatives contemplated in the  
14 General Services Department.

15 Q Do you have an understanding of what the bulk of that is?

16 A Yes. The bulk of this is actually a reimbursement from  
17 the street fund that is contemplated as a result of the  
18 General Services Department maintaining berms and other areas  
19 that would qualify for the street fund reimbursement.

20 Q What is the street fund?

21 A This is essentially a fund that is established for  
22 maintenance, if you will, of common areas, and this would be  
23 common areas with the State of Michigan.

24 Q And so who gives -- who gives the money?

25 A Well, it comes from the street fund but essentially from

1 the state.

2 Q All right. Let's go back to -- yeah. We're at Table 5-

3 A. Let's look at the finance department now. You've got  
4 221.4 million there. Why?

5 A As you can see under the investment, one of the biggest  
6 areas that drives that is under the ITS, which is the  
7 information technology services division of finance. As I  
8 had mentioned earlier, the city contemplates as part of the  
9 reinvestment initiatives just over \$150 million in technology  
10 improvements in total. 101 of those are related to the ITS  
11 division. That includes the ERP system for the finance  
12 department as well as back-end support, hardware and software  
13 across the city. In addition to that \$101 million, you see  
14 that we have various areas within accounting and finance  
15 administration, the assessor's office, and treasury, and if  
16 we go to 5-B, you'll see that that is largely related to  
17 additional operating expenditures.

18 Q Is there a -- what is the investment that's contemplated  
19 for these divisions with regards to accounting and finance  
20 administration?

21 A An item that is very important related to this plan is to  
22 not only have systems that can process information but the  
23 personnel to actually do it as well, to carry out the day-to-  
24 day accounting and finance activities. And this contemplates  
25 approximately \$24.9 million in additional spending primarily

1 related to labor, and specifically this is the addition of 13  
2 people, 9 of whom would be responsible for tracking,  
3 monitoring, and maintaining the reinvestment plan, and then  
4 an additional net 4 people that are meant to bolster the  
5 activities that are performed by the accounting and finance  
6 divisions.

7 Q Why are these new additions important to the success of  
8 the reinvestment initiatives?

9 A In many ways right now, the city gets things done with  
10 just sheer brute force, and there's no secret that a lot of  
11 outsiders are used to accomplish various tasks. The goal is  
12 for the city to be able to accomplish all of this on its own,  
13 so it needs to make sure that it has the right resources,  
14 qualified resources to be able to carry out these activities.

15 Q And what are some of the activities that is contemplated  
16 these new individuals, these new hires will do?

17 A In addition to tracking and monitoring the reinvestment  
18 initiatives, which is a very important part, it's making sure  
19 that the city is able to close its books on a monthly basis,  
20 perform bank reconciliations, activities that you would  
21 expect any accounting and finance area to be able to  
22 accomplish.

23 Q If we could go back to 5-A, what are the projected cost  
24 savings from the investments in the finance department?

25 A There's approximately \$11 million that's contemplated

1 there as it relates to cost savings.

2 Q All right. And let's go back to -- I'm trying to find  
3 it. Okay. Income tax, 10.4. What are the cost savings with  
4 respect to that division?

5 A Okay. As it relates to income tax -- and what I would  
6 just point out prior to that time is we have an investment  
7 here of approximately \$12 million. The city right now has an  
8 income tax division that's been labeled catastrophic by the  
9 IRS. It's in the process -- we will go live very shortly --  
10 on implementing a new application that's used by, I believe,  
11 20 of the 22 municipalities within the State of Michigan that  
12 assess an income tax. It's called City Tax. The \$12 million  
13 relates to implementation of City Tax. That's a very  
14 important piece to allowing the city to no longer have a  
15 catastrophic income tax system. The cost savings come from  
16 the elimination of outside resources that are necessary right  
17 now to conduct these activities as well as improved  
18 efficiencies that are expected.

19 Q And then you have next to that a revenue initiative with  
20 respect to income tax of 40.5 million. Can you describe for  
21 the Court what that is?

22 A Yes. Again, the way that the reinvestment initiatives  
23 have been defined, it's taking the department and making it  
24 as efficient and maximizing what it can do, and there are two  
25 areas that we look to from a revenue standpoint within the

1 income tax division. One is collecting on income tax  
2 receivables, if you will. The other part is making sure that  
3 we are trying to collect as much as we can within the  
4 existing system. There's no question that -- as I mentioned  
5 earlier, there's an item that's not in here, which people  
6 have talked about before, that relates to reverse commuter  
7 taxes. This \$40.5 million specifically relates to  
8 initiatives that are underway right now not only collecting  
9 past due receivables or receivables -- income tax  
10 receivables, but also making sure that we are taking the  
11 returns that we get, auditing those returns, and identifying  
12 who should be paying taxes. I'll give a specific example.  
13 The city has begun working with the IRS to obtain data on  
14 individuals where it would suggest that they should be filing  
15 a City of Detroit tax return but they have not, and that is  
16 part of what is contemplated in the \$40 million.

17 Q Okay. And above income tax, there's grants and grants  
18 management. That's a division; is that right?

19 A This is a new division within finance. It's a very  
20 important division.

21 Q What is the investment, 19 million, for?

22 A The city gets a fair amount of grant revenue every year;  
23 however, there are numerous stories about how the city has  
24 not been able to properly track its grant revenue, and so, as  
25 a result, there are instances, whether it's HUD, Department

1 of Housing and Urban Development Department, or other  
2 granting authorities or parties that have indicated that  
3 without changes not only is the city at risk of not getting  
4 future grant dollars but may have to reimburse grant dollars  
5 as well, so this is really about establishing a grants  
6 management system to more effectively manage grants  
7 throughout the city.

8 Q And you have revenue initiatives projected at nearly \$8  
9 million for that new division; is that right?

10 A That's right.

11 Q What does that reflect?

12 A That reflects additional grant revenue that we  
13 anticipate; however, it's important to point out we've  
14 included the costs associated with grants here, grants  
15 management; however, we are contemplating additional  
16 grants -- we talked about some earlier in the public safety  
17 initiatives -- that are in other areas.

18 Q All right. And then let's talk about risk management.  
19 You have six million invested in it. What does that reflect?

20 A As I indicated when we were discussing the Department of  
21 Transportation, the city has conducted an audit related to  
22 Workers' Compensation and has found numerous instances where  
23 fraud is suspected. What this contemplates is the addition  
24 of resources -- in-house resources to better manage Workers'  
25 Compensation claims. There is the expectation that there



1 will be savings here as well as I'd indicated under the  
2 Department of Treasury an additional \$14 million in savings  
3 related to Workers' Compensation claims.

4 Q All right. So if we go to the next line -- the next  
5 row -- column over, it says 18.5 in savings. What does that  
6 refer to?

7 A That reflects the anticipated savings related to Workers'  
8 Compensation claims.

9 Q All right. And if we go down to the Treasury Division,  
10 you have an investment of 28.4 million. What does that  
11 reflect?

12 A The \$28.4 million in treasury is a mixture of a few  
13 different items. Treasury handles collection of invoicing,  
14 if you will, billings. That can be a whole variety of items.  
15 It essentially does not handle income taxes but pretty much  
16 handles everything else. A big part of it is making sure  
17 that we have the right number of resources, and so  
18 approximately \$23 million of that \$28 million is for  
19 additional labor. And then there are other items, as an  
20 example, BS&A software for property taxes, and there are  
21 items that relate primarily to efficiencies that are  
22 anticipated to be realized.

23 Q And if you look at the cost savings of three million, do  
24 you have an understanding what that reflects?

25 A Yes. This is, as a result of the implementation of a new

1 system, the efficiencies that are contemplated to be  
2 realized.

3 Q All right. And you have total revenue initiatives for  
4 treasury of almost 17 million. What's that?

5 A This is -- there are two items that relate to that.  
6 First of all, there are going to be additional resources that  
7 are actually specifically focused on collections, and so of  
8 that \$16.9 million, about \$13-1/2 million of that relates to  
9 those individuals. And then in addition to that, the city  
10 contemplates and has essentially gone down this path with a  
11 party taking a number of old receivables that it has been  
12 unable to collect and using a third party to collect those.

13 Q All right. Let's focus now on ITS. Can you describe for  
14 the Court your understanding of the city's current IT  
15 infrastructure?

16 A The city's current IT infrastructure is very outdated.  
17 It is made up of a lot of disparate systems, many of which  
18 don't talk to one another. There are numerous instances of  
19 duplicate or redundant systems within departments. It is a  
20 very, very antiquated system.

21 Q Okay. If we can go back just real quickly to Exhibit  
22 619, the very first table, Table little i, and if you look,  
23 the fourth line down is technology, and it has a total of  
24 151.7. Do you see that, sir?

25 A Yes.

1 Q What does that reflect?

2 A This takes technology expenditures in the reinvestment  
3 initiatives across all reinvestment initiatives and  
4 aggregates them together, and the total is \$151.7 million.

5 Q Now, if we go back to Table -- on the same exhibit Table  
6 5-B and we look at ITS, you have a total of 101, which is  
7 different than 157.

8 A Yes. 151.

9 Q 151. Why is that?

10 A I think, as I indicated earlier, this is the portion of  
11 the 151 that relates to the finance department, so there are  
12 other departmental technology expenditures that are included  
13 in those departments, public safety being a primary item.

14 Q Okay. And so you have -- in the ITS division, you have  
15 16.3 for additional operating expenses and 84.8 for  
16 technology. What's the difference between the two?

17 A The additional operating expenditures are primarily  
18 labor-related, and certainly in my multiple discussions with  
19 Ms. Niblock, there is no question that she is very resource  
20 constrained. And so this is adding resources for the ITS  
21 department.

22 Q When you say "adding resources," you mean people?

23 A Yes.

24 Q Okay.

25 A Yes. And then the rest of that relates to actual

1 hardware, software and infrastructure-type items.

2 Q Okay. And then when you say "the rest of that" --

3 A Thank you for -- I was just about to -- the rest of that  
4 \$84.8 million relates to hardware, software, and other  
5 infrastructure.

6 Q All right.

7 MR. HAMILTON: Let's bring up -- as much as I hate  
8 to do this, let's bring up City Exhibit 552.

9 BY MR. HAMILTON:

10 Q Now, we talked about this briefly earlier this morning  
11 when you were talking about the IT improvements for the  
12 police department, but can you again state for the record how  
13 this entire document came to be?

14 A This document was put together -- the very first  
15 iteration of technology expenditures was when the first phase  
16 of the reinvestment plan was put together, and that would  
17 have been just prior to the June 14th, 2013, proposal to  
18 creditors. Subsequent to that time, the IT plan has gone  
19 through further refinement, especially after the time that  
20 Ms. Niblock came on as the chief information officer, and so  
21 this schedule has been developed in conjunction with Ms.  
22 Niblock.

23 Q All right.

24 MR. HAMILTON: If we could go to the second page of  
25 this exhibi and blow up the section, I believe, on ITS.

1 BY MR. HAMILTON:

2 Q What do these lines represent?

3 A I have a fair amount of technology in my background, so  
4 to me it all makes a lot of sense. Others it may not, but it  
5 essentially relates to updating the various systems as well  
6 as implementing new systems that are critical for the city to  
7 operate. The top item is the ERP system. ERP system is  
8 critical to all of these reinvestment initiatives. After  
9 that, when you get into Microsoft application update, data  
10 center backup, some of these are fairly high dollar amounts,  
11 but they really relate to how the ITS department itself  
12 services and the technology that is used throughout the city.

13 Q Approximately how much in all this is being spent to --  
14 for the implementation of the new ERP system?

15 A If you scroll to the right, that amount is shown there,  
16 so you see there that it's \$26.2 million for the ERP system.

17 Q All right. And these numbers -- you also have in here  
18 the cost for the additional staff; is that right?

19 A Yes.

20 Q What role will they play?

21 A The additional staff is essentially going to be put  
22 across various projects, so implementing projects as well as  
23 supporting some of the existing applications, hardware,  
24 infrastructure. Clearly, the city is going to be migrating,  
25 though, towards a different architecture, and so that will

1 also involve having individuals with different skill sets  
2 perhaps.

3 Q All right. And the numbers that reflect the additional  
4 labor costs, approximately how many full-time employees are  
5 you contemplating will be added to the ITS staff?

6 A Approximately 15.

7 Q Are there other aspects of the reinvestment initiatives  
8 that will ensure that the technological upgrades in progress  
9 are actually implemented effectively?

10 A The oversight of the information technology services area  
11 is very important. I've had meetings with Mr. Hill, Ms.  
12 Niblock separately as well as together talking through  
13 specifically how to approach many of these technology  
14 projects, and it is clear that they are both very much  
15 focused on that, but, generally speaking, executive level  
16 support is a critical aspect for any successful technology  
17 implementation.

18 Q Is there also plans for the creation of a help desk of  
19 some kind?

20 A Yes.

21 Q And approximately how much are you going to invest in  
22 that?

23 A The help desk -- actually, there are several items. If  
24 you scroll to the left, again, we can go through some of  
25 these detailed items here. As you see, the fourth line from

1 the bottom where we have help desk software, that's the  
2 software itself. And if you scroll to the right, you can see  
3 the amount that relates to that, and it looks like a couple  
4 million dollars, we'll call it.

5 Q What is the -- what will be the impact of having this \$2  
6 million of help desk software?

7 A Well, right now there's not a good mechanism for tracking  
8 or managing IT-related issues, and so having that help desk  
9 software will not only be able -- or allow the city to be  
10 able to log what the issues are but actually work to resolve  
11 those issues.

12 Q This entire document that details in minute detail all of  
13 the IT investments, did you prepare this document?

14 A Yes.

15 Q Okay. And did you make these recommendations of these  
16 expenditures for IT to the City of Detroit?

17 A Yes.

18 Q Okay.

19 MR. HAMILTON: Your Honor, I would move Exhibit 552  
20 into evidence.

21 MR. SOTO: No objection.

22 THE COURT: Thank you. It is admitted.

23 (City Exhibit 552 received at 2:00 p.m.)

24 BY MR. HAMILTON:

25 Q Mr. Moore, have you done anything to consider or address

1 the potential cost overruns with respect to IT investments  
2 that were discussed in the Kopacz report?

3 A Certainly that is an area that is continually being  
4 looked at in terms of estimates. Technology projects are  
5 known for their overruns, and really, as I mentioned just a  
6 few minutes ago, one of the mitigating factors for that is  
7 executive-level support, and that is certainly one thing that  
8 I have looked at and I've attempted to assess is what level  
9 of executive support is there for these projects.

10 Q Do you have an opinion as to whether the schedule for the  
11 implementation of these projects is reasonable and  
12 achievable?

13 A Yes. I believe that it is reasonable and achievable.

14 Q All right If we could go back to, again, Exhibit 619,  
15 Table 5-A, you also have what's almost \$40 million being  
16 invested in the human resources and labor relations  
17 department. Why is that necessary?

18 A These are two different departments, but we've combined  
19 them for this purpose. The human resources area is another  
20 one of those critical elements that underlies all of the  
21 reinvestment initiatives. Human resources, the department  
22 has really experienced significant staffing reductions and  
23 has a very difficult time with, as an example, bringing on  
24 new people. The amount of time that it takes to recruit and  
25 onboard someone very often is six months or more.



1 Q Mr. Moore, I want you to refer now to pages -- page 76 of  
2 your expert report. Can you give the Court some estimate or  
3 approximation of the headcount reductions that these  
4 departments have experienced recently?

5 A Yes. Those two departments together from 2011 to 2014  
6 have declined by 52 percent, so the headcount had been  
7 approximately 176 employees and is now down to 84 employees.

8 Q Okay. What has been the impact on the performance of  
9 these departments as a result of that headcount reduction?

10 A It is very difficult to carry out the activities, as I  
11 mentioned, about recruiting and onboarding new employees,  
12 which is a critical part of obviously the reinvestment  
13 initiatives, but also other activities such as training,  
14 performance evaluations. None of those activities are  
15 occurring right now.

16 Q All right. What initiatives are planned for the HR  
17 department?

18 A In addition to adding resources, the other area is  
19 ensuring that there's adequate training for all employees  
20 throughout the city.

21 Q So if we go back to Table 5-A on Exhibit 619 -- excuse  
22 me. Yeah. And you've got -- I'm sorry. 5-B. My mistake.  
23 We've got 34.8 million in additional operating expenses for  
24 the human resources and labor departments. What does that  
25 reflect?

1 A The \$34.8 million, a significant amount of that, \$25  
2 million, relates to the additional labor, so additional labor  
3 resources that would be added to the departments. In  
4 addition to that, there's also training that is anticipated  
5 to be added for the employees, and specifically -- this is  
6 going over to capital expenditures, but also a training  
7 location.

8 Q Are there any employees being added to monitor and comply  
9 with union contracts?

10 A Yes, approximately 11 employees.

11 Q And the two point -- is there a 2.4 million? Yeah, right  
12 there on the reorganization cost. What's that reflect?

13 A This incorporates a few items actually. One is a wage  
14 and compensation study. This is an important part of making  
15 sure that the right compensation structure and right job  
16 classifications exist. There's also an element to that that  
17 involves a change agent, cultural change agent. It's been  
18 written about many times that the culture within the city in  
19 many ways amongst the workforce is not the way that it needs  
20 to be, and so critical for this plan is not only having the  
21 right resources, right qualified resources added, but also  
22 ensuring that that -- the cultural deficiencies that exist  
23 today are addressed.

24 Q And then just a second ago you referred to some of the  
25 expenditures on training. Why is the investment in training

1 important?

2 A Right now there are many employees that are in positions  
3 that may be able to perform their job but have never received  
4 any training, and so in order for us to ensure that employees  
5 are able to do their jobs, training has to occur. There may  
6 be instances where despite training, the individual is not  
7 qualified to do a job, and that will have to be addressed,  
8 but if an individual through the receipt of training is able  
9 to perform a job, that's the ideal scenario.

10 Q Can we go back then to 5-A? Why are there no cost  
11 savings associated with the HR department initiatives  
12 specifically?

13 A This is not an area for cost savings at this time.  
14 Eventually, there may be an opportunity to realize cost  
15 savings in this department; however, with the significant  
16 reduction in resources and the activities that are necessary  
17 to effectuate these reinvestment initiatives, there is not  
18 contemplated an ability to achieve cost reductions in these  
19 departments.

20 Q All right. So the \$39.5 million investment in the human  
21 resources and labor department, is that related in any way to  
22 all the cost savings that are anticipated for all the other  
23 initiatives?

24 A Yes, very much so.

25 Q Why is that?

1 A The cost savings that are identified in all of the other  
2 areas involve and require having qualified individuals to  
3 carry out those tasks. Without the expenditures in the human  
4 resources department, that will be difficult to have those  
5 resources in place to effectuate those cost reductions.

6 Q Do you have an understanding as to approximately how many  
7 overall -- how many new employees the HR department is  
8 contemplating onboarding as a result of these reinvestment  
9 initiatives?

10 A Yes. There is a peak point that occurs, so we continue  
11 to talk about a period that goes through June 30th of 2023.  
12 The peak point, which, I believe, is 2017, there are  
13 almost -- or approximately 800 additional employees that will  
14 be added. That does not take into account replacement for  
15 attrition, so there are a significant number of resources  
16 that have to be added here.

17 Q All right. Let me ask you now -- on this table right  
18 below human resources is the law department, and the  
19 initiatives invest 21.4 million in that department. What  
20 does that reflect?

21 A This is primarily the addition of 17 FTE's bringing  
22 certain --

23 Q FTE's. What do you mean?

24 A Excuse me. Full-time equivalent employees. So this is  
25 adding employees with the goal -- and that is reflected on

1 the cost savings part -- of reducing outside services.

2 Q All right. So when you say it's reflected cost savings,  
3 you're showing cost savings here of almost 25 million.

4 What's that reflect?

5 A This is primarily a contemplated reduction in outside  
6 legal services.

7 Q So instead of paying outside lawyers, you're going to  
8 have people in the law department doing the work instead?

9 A Yes. That's right.

10 Q Revenue initiatives on this for the law department, four  
11 million, what's that?

12 A That relates to anticipated higher collections going  
13 after various items where there may be judgments or other  
14 bases to collect amounts.

15 Q All right. And so the next department we have is the  
16 office of the auditor general, inspector general. What is  
17 the 4.2 million contemplated there?

18 A This is primarily four additional positions that are  
19 vacant right now that would have to be added.

20 Q Okay. And what's the purpose of that?

21 A Right now that is especially to carry out performance  
22 audits. As an example, the -- over the last month and a half  
23 or so, I've had multiple meetings with the auditor general  
24 where the auditor general is looking specifically at how he  
25 will assess the performance of the reinvestment initiatives,

1 and so this is the addition of resources for vacant positions  
2 right now to carry out those tasks.

3 Q Department of Elections, almost four million, what's that  
4 for?

5 A The Department of Elections is actually -- this is  
6 primarily -- if we were to go to Table 5-B, you'll see that  
7 this is primarily capital expenditures.

8 Q Yeah. What's the 3.3 million reflect?

9 A Yeah. What this is is that this is essentially deferred  
10 facility maintenance that needs to occur for that department.

11 Q And then human rights department, you have -- on this  
12 chart it shows 5.3 million in additional operating expenses,  
13 hundred thousand on technology. What's the additional  
14 operating expenses?

15 A The additional operating expenses are also for additional  
16 resources, especially to carry out -- to ensure that the city  
17 is complying with various ethics and other ordinances.

18 Q When you say "additional resources," again, you mean  
19 people?

20 A Yes, yes. Thank you. People resources.

21 THE COURT: Can you pull the microphone closer to  
22 you, please?

23 MR. HAMILTON: Yes, your Honor.

24 THE COURT: Just go ahead and pull the microphone  
25 closer to you.

1 MR. HAMILTON: There?

2 THE COURT: Try that.

3 MR. HAMILTON: Okay. Is that better? Doesn't seem  
4 like it's picking up anything.

5 THE COURT: Just do the best you can.

6 MR. HAMILTON: Okay.

7 THE WITNESS: And, Mr. Hamilton, just to clarify,  
8 that is people related to the human rights area, and  
9 specifically six full-time equivalents are contemplated for  
10 insuring compliance with ethics and other human rights  
11 policies.

12 BY MR. HAMILTON:

13 Q Okay. All right. Let's go to the management  
14 initiatives, Mr. Moore. Can you describe generally for the  
15 Court what the management initiatives are?

16 A The management initiatives deal with trying to improve  
17 the services and the performance within the elected  
18 leadership areas, specifically city clerk, city council, and  
19 the mayor's office.

20 Q All right.

21 MR. HAMILTON: Can we bring up Table -- on this same  
22 exhibit, 619, Table 6-A and 6-B?

23 BY MR. HAMILTON:

24 Q What does those two tables represent?

25 A As we have discussed before, the top table incorporates

1 not only the investment -- for these areas, the net  
2 investment is very small. It's only \$200,000, contemplated  
3 cost savings of 2.2 million, so the net reinvestment is a  
4 pickup of approximately 2.5 million. And then Table 6-B is  
5 the detail of the investment by category of investment.

6 Q Why is the investment in city council a negative number?

7 A The investment in city council as a negative number, as  
8 you see down below, is a reduction in additional operating  
9 expenses, and that actually contemplates the transition, as I  
10 mentioned before, under the Planning and Development  
11 Department from the City Planning Commission -- or for the  
12 City Planning Commission over to Planning and Development.

13 Q Okay. And then the mayor's office, you have \$2.1 million  
14 as an additional operating expense in Table 6-B. What's that  
15 reflect?

16 A The mayor's office actually has a few items that are  
17 occurring there, and it nets down to \$2.1 million, but there  
18 are contemplated to be a fair number of additional labor  
19 resources that are added related to lien processes.  
20 Associated with those are contemplated savings. They are  
21 netted against one another here rather than being in the cost  
22 savings area, but specifically there's about \$20 million in  
23 additional labor contemplated for lien resources with  
24 approximately \$17-1/2 million of savings.

25 Q And then you have 200,000 for technology for city



1 council. What's that reflect?

2 A This relates to just improving technology, especially as  
3 it relates to the normal operating maintenance, and ensuring  
4 that there is adequate training for city council staff.

5 Q All right. What cost savings are anticipated from -- I'm  
6 sorry. Is there any -- are there any cost savings  
7 anticipated from the investment in the mayor's office?

8 A There are. As I indicated, the number there that's shown  
9 is a net number, and so while there's approximately \$20  
10 million in additional resources to address lien processes,  
11 there's about \$17-1/2 million of anticipated savings that  
12 offset that, and those are shown as a net number under the  
13 additional operating expenses.

14 Q What are some of the projects that are included in that  
15 category?

16 A Some of the items that have already been looked at are  
17 EMS staffing and operations, the purchasing department  
18 process streamlining, snow removal efficiency, and also the  
19 certificate of occupancy process.

20 Q All right. Let's go to the seventh category of  
21 initiatives, the nondepartmental initiatives.

22 MR. HAMILTON: Can we bring up Tables 7-A and 7-B on  
23 this exhibit, 619?

24 BY MR. HAMILTON:

25 Q Can you describe for the Court what these initiatives are

1 and why they're important?

2 A The nondepartmental initiatives relate specifically to  
3 the 36th District Court. The court is not a department of  
4 the city; however, it has -- as a result of budget overruns,  
5 the city is the funding source for the court, and so these  
6 initiatives here specifically address the 36th District  
7 Court.

8 Q All right. And if we look at the investments, you have  
9 four million in additional operating expenses. What does  
10 that relate to?

11 A This is primarily people, adding people to the court.

12 Q Okay. And technology, is that the IT improvements?

13 A Yes. A very significant initiative that exists for 36th  
14 District Court is to go to more of a paperless court system,  
15 and this is the technology that would facilitate that.

16 Q Five million in capital expenditures, what does that  
17 refer to?

18 A These are primarily facility-related capital  
19 expenditures. The court itself is in need of some pretty  
20 significant facility improvements.

21 Q And then 3.7 for reorganization, what's that refer to?  
22 Do you know?

23 A The \$3.7 million in reorganization is primarily related  
24 to one-time items related to outside costs for implementing  
25 the paperless court system.

1 Q And then on 7-A you have a projected cost savings of  
2 almost \$10 million. Where do those come from?

3 A The cost savings are actually two items that are very  
4 much in process or have occurred. There have been wage  
5 reductions for court employees, and then there have also been  
6 staff reductions as well.

7 Q Okay. Revenue increases of almost 80 million, what  
8 causes that?

9 A This is obviously the big area, and it relates  
10 specifically to collections. The 36th District Court has a  
11 very, very low collection rate. This has been driven by  
12 Judge Michael Talbot, who was put in as the administrator for  
13 36th District Court around May of 2013, and there are a  
14 number of initiatives that are underway to get that  
15 collection rate up from approximately 25 or 26 percent to the  
16 50-percent range.

17 Q What are they collecting?

18 A This is collecting a variety of items. It can be  
19 anywhere from tickets, parking tickets to judgments and  
20 anything else that the court should collect.

21 Q Okay. All right. Mr. Moore, I'm going to go to a new  
22 topic now and take a moment away from the restructuring  
23 initiatives. I want to ask you did there come a time where  
24 you became involved in what is called the pension task force?

25 A Yes.

1 Q Can you describe for the Court how you first became  
2 involved with the pension task force?

3 A Around May -- I'm sorry. Around February of 2013, I was  
4 asked to -- I was asked by the program management director at  
5 the time, Mr. Chris Andrews with the city, to get involved or  
6 investigate items related to the pension, which necessitated  
7 creating the pension task force.

8 Q And what was your role at the beginning in connection  
9 with the task force?

10 A The very first activity that Mr. Andrews asked me to  
11 undertake is to essentially review a number of documents and  
12 speak to a number of individuals to get my arms around some  
13 of the issues that existed or had been presented to him that  
14 could exist as it relates to the two defined benefit pension  
15 plans, the general retirement system and the police and fire  
16 retirement system.

17 Q All right. In connection with that early work with the  
18 pension task force, did you become familiar with something  
19 called the annuity savings fund?

20 A Yes.

21 Q All right. How did you become familiar with that fund?

22 A In some of my -- the initial documents that I reviewed in  
23 February of 2013 as well as interviews that I conducted with  
24 city individuals, I became aware of this program at that  
25 time.

1 Q All right. Did you review any documents or reports that  
2 brought it to your attention?

3 A Yes. One of the documents that I reviewed was a memo  
4 prepared in approximately November of 2011 that had been  
5 prepared by Mr. Irv Corley, who exists within the division  
6 that's now known as the legislative policy division of city  
7 council, but it was a memo that he had prepared for city  
8 council that attached the analysis of an outside advisor  
9 related to the annuity savings fund.

10 Q And the analysis by the outside advisor, who was that  
11 advisor?

12 A That was Mr. Joe Esuchanko.

13 Q All right. And so did that attach the analysis? Did the  
14 Corley e-mail attach the Esuchanko analysis?

15 A Yes.

16 Q Okay.

17 MR. HAMILTON: Can you bring up -- the disclosure  
18 statement is City Exhibit Number 3. Can you bring up on the  
19 screen page 106 of the disclosure statement, which is page  
20 121 of the PDF? Here we go. And if we go down to the very  
21 bottom, paragraph before fiduciary maintenance, could you  
22 blow that up? All right.

23 BY MR. HAMILTON:

24 Q In the disclosure statement, there's reference to a  
25 report by a Joseph Esuchanko. Do you see that?

1 A Yes, I do.

2 Q Is that the report that was attached to the Corley  
3 memorandum that you reviewed?

4 A Yes.

5 Q Okay. What did you learn when you read the Corley memo  
6 and then the Esuchanko report?

7 A There was a practice that had been employed by the  
8 General Retirement System whereby excess interest was being  
9 credited to annuity savings fund accounts as well as what  
10 were referred to as 13th checks were also being distributed  
11 from the system.

12 Q In your subsequent investigation, what did you learn  
13 about how the ASF worked? What were the mechanics of it?

14 A What I learned is that it's a program that exists for the  
15 General Retirement System. Employees have the ability to  
16 participate in this program, and if they do participate, they  
17 can set aside three, five, or seven percent of their after  
18 tax pay, and it would go into a savings account. That  
19 savings account would then have interest credited to it at a  
20 rate determined by the GRS trustees.

21 Q All right. When did this program start?

22 A By all indications, the program began around 1973.

23 Q Okay. And how did it operate in its first ten years or  
24 so?

25 A Initially, what was anticipated would occur is that

1 interest would be credited at the assumed rate of return for  
2 the pension system, so if the GRS pension system was assuming  
3 a six-percent rate of return on its plan assets, the money  
4 that was put into the annuity savings fund accounts would be  
5 credited with that level of interest, the principle behind  
6 that being that the money that was put into the annuity  
7 savings fund accounts were commingled and coinvested with the  
8 GRS plan assets.

9 Q Okay. And then did anything change with respect to the  
10 practice of how the ASF was administered in the mid-1980s?

11 A Based on Mr. Esuchanko's report as well as other items  
12 that I reviewed specifically for myself, in the mid-1980s a  
13 practice began whereby if the plan assets had a rate of  
14 return -- an actual rate of return greater than the assumed  
15 rate of return, excess interest was credited to the annuity  
16 savings fund accounts.

17 MR. QUINN: Your Honor, objection. That's hearsay.  
18 He doesn't claim any personal knowledge.

19 THE COURT: Sir, you are not on the microphone. If  
20 there's something you'd like to say, you need to step forward  
21 and get on a microphone.

22 MR. QUINN: Your Honor, I'm John Quinn.

23 THE COURT: What is your objection, sir?

24 MR. QUINN: I'm objecting to the last -- the  
25 question and answer on the grounds that the answer was pure

1 hearsay. He claims no personal knowledge.

2 THE COURT: All right. Thank you.

3 MR. HACKNEY: Your Honor, if this testimony relates  
4 to an issue for Mr. Quinn, he's welcome to have my seat so  
5 that he can sit next to a microphone.

6 THE COURT: Would you like to do that, sir?

7 MR. QUINN: Yes, your Honor.

8 THE COURT: You may. And may I hear the city's  
9 response to the objection, please?

10 MR. HAMILTON: Let me -- I don't believe it's going  
11 to be hearsay, but let me ask some questions to see if we can  
12 establish a foundation for that, your Honor.

13 THE COURT: You may do that.

14 BY MR. HAMILTON:

15 Q Mr. Moore, did you personally do an analysis to determine  
16 what happened with respect to the annuity savings funds over  
17 the years?

18 A Yes. I believe, as I indicated in my response, I  
19 reviewed Mr. Esuchanko's report as well as reviewed documents  
20 on my own that indicated there was excess interest that was  
21 paid.

22 Q And what were the --

23 THE COURT: Excuse me. What documents are you  
24 talking about?

25 THE WITNESS: I received a document from the GRS



1 pension system that showed specifically by year what excess  
2 interest was credited.

3 BY MR. HAMILTON:

4 Q In addition to -- did you ever speak with Mr. Esuchanko?

5 A Yes, I did.

6 Q Who else did you speak with?

7 A I spoke with Mr. Irv Corley as well as Mr. Jerry  
8 Pokorski, who works with Mr. Corley, and I spoke with  
9 multiple pension board trustees.

10 Q All right. And did the emergency manager issue any  
11 orders regarding investigation of this issue?

12 A Yes.

13 MR. QUINN: Your Honor --

14 THE COURT: Have to get by -- sit down --

15 MR. QUINN: I'm sorry.

16 THE COURT: -- and talk right into the microphone.

17 MR. QUINN: I think my objection is sustained by his  
18 testimony. He gets this from other people and documents that  
19 are not in evidence.

20 THE COURT: Well, let me ask you this, sir. Is  
21 there any serious dispute about the truth of what he's  
22 saying?

23 MR. QUINN: The --

24 THE COURT: That would be yes or no.

25 MR. QUINN: Well, yes, there is, your Honor.

1 THE COURT: So you dispute that the pension plans  
2 credited to individual ASF account holders interest in excess  
3 of the assumed rate of return?

4 MR. QUINN: In excess of the assumed rate of return  
5 or the actual rate of return? I'm not sure what --

6 THE COURT: In excess of the --

7 MR. QUINN: 7.9 --

8 THE COURT: -- assumed rate of return.

9 MR. QUINN: In excess of the 7.9 assumed rate of  
10 return.

11 THE COURT: In excess of the assumed rate of return?

12 MR. QUINN: Yes, your Honor. That is contested.

13 THE COURT: Well, I look forward to your proof then.  
14 The objection is overruled.

15 MR. QUINN: Thank you.

16 BY MR. HAMILTON:

17 Q Did there come a time in 2011 where a city ordinance was  
18 enacted to address some of the practices that were going on  
19 with respect to the ASF?

20 A Yes.

21 Q What happened then?

22 A An ordinance was put in place to address the interest  
23 crediting practices for the annuity savings fund accounts as  
24 well as the 13th checks, and specifically on the annuity  
25 savings fund accounts, there were what are commonly referred

1 to as collars or bookends put in place whereby the interest  
2 credited to the annuity savings fund accounts could not  
3 exceed the assumed rate of return. At the same time, they  
4 could not be below zero percent, so you could not lose money  
5 in the annuity savings fund account.

6 Q So what does that mean in years where the GRS assets, the  
7 actual returns were a loss? What happened to the ASF  
8 accounts?

9 A Because the assets within the annuity savings fund  
10 accounts and the general plan assets are commingled and  
11 coinvested, if the plan assets lose money, then it requires  
12 additional plan assets to keep the annuity savings fund  
13 accounts whole, meaning to prevent them from declining in  
14 value as well.

15 Q When that ordinance would --

16 MR. QUINN: Sorry for the interruptions. May I have  
17 a continuing --

18 THE COURT: No, sir, you may not. If there's  
19 something you want to object to, you should object.

20 MR. QUINN: Continues to be hearsay, your Honor.

21 THE COURT: The objection is overruled. Go ahead.

22 BY MR. HAMILTON:

23 Q What happened to that ordinance?

24 A That ordinance is in place; however, there was a -- and  
25 because I'm not the attorney, I may get a few terms wrong

1 here, but there was a grievance filed by AFSCME related to  
2 that ordinance and collective bargaining, and I believe that  
3 sometime post-petition the stay was lifted in this matter for  
4 a separate judge to rule on that issue -- that grievance.

5 Q Okay. Did you, in connection with exploring this issue,  
6 work with something called the policy group for the city  
7 council?

8 A Yes. That group is now referred to -- as part of the  
9 reinvestment initiatives actually, there is consolidation  
10 that has occurred within city council, and the group is now  
11 referred to as the legislative policy division of city  
12 council. And, yes, I have worked directly with them.

13 Q All right. Then did you also work with investigators  
14 from the IG-AG department?

15 A Yes. To be clear, the emergency manager in June of 2013  
16 issued an order requiring the auditor general's office and  
17 the inspector general's office to investigate 13th checks.  
18 Actually, it was a benefit investigation in general, but one  
19 element related to the pensions. And I worked with both the  
20 auditor general's office and the inspector general's office.

21 Q And when you say you worked with them, what does that  
22 mean?

23 A I interacted directly with the individuals that were  
24 conducting the analysis. I met with them multiple times. We  
25 shared information that we had both received from the General

1 Retirement System.

2 Q All right. And did that -- did the IG-AG  
3 investigators -- did they issue a report?

4 A Yes.

5 Q All right. And did you review that report?

6 A Yes.

7 Q If we could -- on this exhibit that's on the screen, this  
8 is a page -- it's page 106 of the disclosure statement.

9 MR. HAMILTON: If we'd go up to the third full  
10 paragraph on the page, if you highlight that -- that one,  
11 yeah.

12 BY MR. HAMILTON:

13 Q You'll see a reference to -- in the middle of the  
14 paragraph a reference to a report. Is that the IG-AG report  
15 that you're referring to, Mr. Moore?

16 A Yes, it is.

17 Q Okay. All right. As a result of meeting and discussing  
18 with all these people and investigators and looking at all  
19 these documents, what did you find about the operation of the  
20 annuity savings fund over the years?

21 A The city itself doesn't fund any interest to the annuity  
22 savings fund accounts. As a result, if interest is credited  
23 that is in excess of what the plan assets have actually  
24 returned, the only way for that interest to be credited is to  
25 take plan assets to facilitate that.

1 Q All right.

2 THE COURT: How much was that?

3 THE WITNESS: Your Honor, I looked at multiple time  
4 periods, but the time period that we focused in on was fiscal  
5 year 2003 through fiscal year 2013. Prior to viewing this  
6 under the lens of the 2011 ordinance, so forgetting about the  
7 bookends, there was approximately \$450 million in excess  
8 interest that was credited to annuity savings fund accounts  
9 as compared to what the actual return on plan assets was.

10 THE COURT: So that's 2003 through 2010 --

11 THE WITNESS: '13.

12 THE COURT: -- or 2011?

13 THE WITNESS: 2013.

14 THE COURT: Oh, the whole time period?

15 THE WITNESS: Yes.

16 BY MR. HAMILTON:

17 Q Did you come across any examples that you thought were --  
18 of particular participants in the ASF fund that were  
19 illustrative of the type of disparities we're talking about?

20 A Yes, I did.

21 Q Can you describe that for the Court?

22 A I reviewed specific records as part of the efforts that  
23 were going on with the auditor general's office. There are  
24 individual records that were reviewed that would show  
25 contributions to the annuity savings fund and interest

1 crediting, and some of the amount --

2 THE COURT: Just a second. Does this question  
3 expect the witness to disclose specific names?

4 MR. HAMILTON: No, not even gender, your Honor.

5 THE COURT: Good. Go ahead, sir.

6 THE WITNESS: So there were certainly a number of  
7 records that raised a flag just in terms of the size of the  
8 balances, and as an example, one individual had contributed  
9 approximately \$100,000 from their pay over the course of -- I  
10 believe it was a 35- to 40-year employment with the city, and  
11 that person -- as part of the annuity savings fund, you can  
12 withdraw that after 25 years or you can have it annuitized  
13 and paid in addition to your pension for the rest of your  
14 life. This person retired and took a lump sum and for that  
15 \$100,000 in contributions, the person received \$1.4 million.  
16 If that quick calculation that we performed -- if that person  
17 had received eight percent every year, that person would have  
18 gotten a disbursement of just over \$400,000, so there was an  
19 extra million dollar premium on top of just an eight-percent  
20 return over that time period.

21 THE COURT: So what was the effective rate of  
22 return?

23 THE WITNESS: Your Honor, I calculated that, and I  
24 can't recall right now, but it is well into the teens. I  
25 don't think it reached 20.

1 THE COURT: Well, okay. You have another homework  
2 assignment.

3 THE WITNESS: Okay.

4 BY MR. HAMILTON:

5 Q And just for a general description, can you describe for  
6 us laypeople like if -- what is the basis for the disparity  
7 between a \$400,000 payment if it had been a guaranteed return  
8 of eight percent -- how did it get up to 1.4 million?

9 A What happened is that -- and this is based on my review  
10 of records from GRS -- in years where there was excess  
11 interest paid, that would be tacked onto the assumed rate of  
12 return interest; however, in years where the plan assets did  
13 not perform according to the assumed rate of return or  
14 perhaps even lost money, the assumed rate of return interest  
15 was still credited.

16 Q All right. When you say "excess interest," what did you  
17 mean by "excess interest" when you said in those years?

18 A Where interest in excess of the assumed rate of return  
19 was credited.

20 Q Where the actual returns were substantially higher than  
21 the assumed rate of rate of returns, there's a plus. There's  
22 a -- you got more than you thought you were going to get.

23 A Yes.

24 Q What happened to that excess amount? They got credited  
25 that excess amount?



1 A Yeah. They got credited an excess amount. It did not  
2 always tie exactly to what the actual excess of market  
3 returns versus the assumed rate of return was.

4 Q So over the 35 years -- or 35 to 40 that this particular  
5 employee participated in the ASF, what happened in the years  
6 where the pension assets had good returns and then bad  
7 returns through the years?

8 A Based on how I described that, the assumed rate of return  
9 really became a floor, and so no individuals would get  
10 credited with an interest rate of return that was -- or I'm  
11 sorry -- an interest rate that was less than the assumed rate  
12 of return. However, in the good years, they realized the  
13 upside.

14 Q So that's the difference between 400,000 and 1.4 million  
15 for that particular employee?

16 A Yes.

17 Q All right.

18 MR. HAMILTON: Sir, if we can bring up Exhibit --  
19 City Exhibit 60 and, in particular, page 8 -- I'm sorry.  
20 It's either page 8 or page 7. I've got two different things  
21 on my notes. That's it. Thank you.

22 BY MR. HAMILTON:

23 Q What does this demonstrative show, Mr. Moore?

24 A This is a chart that I prepared that specifically  
25 compares what the actual rate of return was for GRS in these

1 ten years compared to the rate of interest that was credited  
2 to the annuity savings fund accounts.

3 Q All right. So if we can focus in on a year that many of  
4 us still clearly remember, which is the one that ended June  
5 30th, 2009, what happened with the ASF accounts in those  
6 years?

7 A The number on the right is the amount of interest that  
8 was credited to the ASF accounts, and that was 7.9 percent.  
9 The number on the left is the actual return on GRS assets for  
10 that fiscal year.

11 Q What was the impact on the GRS pension fund as a result  
12 of the ASF credits in the year 2009?

13 A As I mentioned earlier, the city itself has no -- doesn't  
14 fund interest on ASF accounts, and so GRS assets had to be  
15 used to first make up for the approximately 20-percent loss  
16 that assets in the annuity savings fund accounts realized and  
17 then add an additional 7.9 percent.

18 Q In addition to investigating the amount of the excess  
19 interest paid over these years, did you also look at  
20 participation rates?

21 A Yes.

22 Q What did you find out?

23 THE COURT: Excuse me. Before we get to that, while  
24 we're still focusing on what happened, did you investigate  
25 and make any finding about why the GRS did this?

1 THE WITNESS: Your Honor, I asked that question many  
2 times, and I never really received a satisfactory answer.

3 THE COURT: What words did you hear?

4 THE WITNESS: Here are some the answers that I  
5 received. One is that there was perhaps a lack of  
6 understanding about what this would do if excess interest was  
7 paid out in good years and was not taken away in bad years.  
8 There was another school of thought that I received answers  
9 from people that people knew what this was about, and this  
10 was a way of enhancing and making up for wage cuts and  
11 various other benefits that may have been taken away from  
12 employees.

13 THE COURT: And one more question. Do you have an  
14 opinion on whether this practice contributed to the unfunded  
15 liability of GRS?

16 THE WITNESS: I do.

17 THE COURT: What is that opinion?

18 THE WITNESS: That it did contribute to the unfunded  
19 position.

20 THE COURT: Dollar for dollar?

21 THE WITNESS: Basically, any excess interest, if you  
22 define excess interest as interest beyond what the actual  
23 rate of return was, that absolutely has a dollar for dollar  
24 impact on the unfunded position. It doesn't mean that the  
25 unfunded position -- that it wouldn't be unfunded were it not

1 for this practice, but defined benefit pension plans are not  
2 meant to have assets go out the door without a commensurate  
3 reduction in the eventual benefit that's paid out.

4 THE COURT: Of course, it might be -- well, let me  
5 just ask. Is it more than dollar for dollar because when the  
6 dollar goes out in 2009, so does the -- so do the returns  
7 that could be earned on that dollar after that?

8 THE WITNESS: Yes, your Honor. You're referring to  
9 compounding, and that absolutely also factors in here.  
10 There's a lost -- there's an opportunity cost because you're  
11 not able to realize the return because those assets are out  
12 the door.

13 THE COURT: That's an additional contribution to the  
14 unfunded liability, isn't it?

15 THE WITNESS: Yes, sir.

16 BY MR. HAMILTON:

17 Q Any findings with respect to how many -- what percentage  
18 of the city's GRS employees -- GRS-eligible employees  
19 participated in this program over the years?

20 A In 2013 when I looked at this, I noticed that the  
21 participation rate in the annuity savings fund program was  
22 approximately 91 percent, which is a very high percentage,  
23 especially in light of -- I look at a number of defined  
24 contribution type of programs, not that this is exactly a  
25 defined contribution program, but especially coming off of

1 lower years in terms of recessionary years -- 91 percent  
2 participation is a very high participation rate.

3 Q All right. After you made these findings, did you have  
4 discussions with the emergency manager's office about the  
5 options the city may have had at that time to possibly recoup  
6 some of this money?

7 A Yes.

8 Q What were the options in that regard that you were  
9 considering?

10 A The city was evaluating, one, recouping some or all of  
11 the excess interest that had been paid or not recouping,  
12 which would have the result of higher benefit cuts that would  
13 be necessary as part of any plan that would be proposed.

14 Q And when you were considering recouping, what were  
15 your -- when you were considering with the emergency  
16 manager's office, how would you go about -- what was the  
17 consideration as to how you would go about recouping?

18 A The consideration -- there were many considerations. One  
19 was how far back we look, how we calculate it, do we use the  
20 ordinance -- 2011 ordinance or not, how we would actually  
21 seek to obtain the recoupment.

22 Q How would you -- I mean would you just ask someone, or  
23 would -- were you considering asserting claims, or what were  
24 you considering?

25 A Certainly trying to seek judgments from people was one of

1 those options that we did not think was very feasible, so if  
2 there was going to be a recoupment, we thought that it had to  
3 involve the actual recoupment of assets that either exist  
4 today or an offset against payments that would occur in the  
5 future.

6 Q All right. Now, you are familiar with and participated  
7 in some of the court-ordered mediation regarding the plan's  
8 treatment and resolution of pension claims; is that right?

9 A Yes, sir.

10 Q Did there come a time where these recoupment issues  
11 became a part of that mediation?

12 THE COURT: Yeah. Don't answer that question.

13 THE WITNESS: Thank you, your Honor.

14 BY MR. HAMILTON:

15 Q Ask it this way. Did there come a time where the city  
16 entered into a settlement of its potential claims for  
17 recoupment regarding the ASF excess interest?

18 A Yes. In I believe it was late April of 2014 the city  
19 entered into a settlement with the pension systems,  
20 specifically GRS, but also the Retiree Committee that  
21 involved an element of ASF excess interest recoupment.

22 Q All right. What were the three issues that had to be  
23 resolved in order to settle the issue?

24 A The three issues were how long we would look back to get  
25 our population of excess interest, whether we would --

1 THE COURT: How long you'd have to look back what?

2 THE WITNESS: To determine the population of excess  
3 interest. The second item was whether we would limit that  
4 amount in any way, and then, thirdly, how we would recoup the  
5 interest.

6 BY MR. HAMILTON:

7 Q All right. With respect to the first issue of how long  
8 the look-back period was, what was the result that was -- of  
9 the settlement? What was the period you all settled on?

10 A The period covering fiscal year '03 through fiscal year  
11 '13.

12 Q Ten-year period?

13 A Yes.

14 Q Okay.

15 A That is -- just to clarify, that's actually an 11-year  
16 period. There was no ASF interest crediting in fiscal year  
17 '13. It was a ten-year period from fiscal year '03 through  
18 fiscal year '12 that was looked at specifically on the  
19 interest side.

20 Q Okay. And then what was the settlement that was reached  
21 as to how much of the excess interest during that ten-year  
22 period would be recouped?

23 A There were two aspects to the settlement. The first was  
24 a cap on the amount of ASF interest that would be recouped,  
25 and the way that the first cap was used or defined is that we

1 could not recoup more than 20 percent of the highest balance,  
2 highest ASF balance that an individual had during this look-  
3 back period. Then there was a second cap that also was put  
4 in place, and that said that for those in pay status, so  
5 people that are retired, the amount of ASF excess interest  
6 recouped could not exceed 15.5 percent of their pension  
7 payment, so with the contemplated 4-1/2-percent reduction and  
8 this 15-1/2-percent recoupment, no retiree would realize a  
9 reduction greater than 20 percent of their pension.

10 Q All right. So you've described two different caps. What  
11 amount are you applying those -- did you agree to apply those  
12 caps to?

13 A Yes. In response to your Honor's question earlier, the  
14 start of our calculation -- the entire period the excess  
15 interest was approximately \$450 million. We applied the 2011  
16 ordinance to set the range of zero percent to 7.9 percent  
17 such that in, for example, 2008 and 2009 it was treated as  
18 zero in the calculation rather than the loss. That took the  
19 \$450 million in excess interest down to approximately \$387  
20 million in interest.

21 Q Were you the one that made that calculation?

22 A Yes, sir.

23 Q All right.

24 MR. HAMILTON: And can we bring up the disclosure  
25 statement again? I think it's page 39 of the PDF, Exhibit 3.



1 And if you look at the third paragraph -- yeah, that one.

2 Blow it up.

3 BY MR. HAMILTON:

4 Q See the bolded language there, Mr. Moore?

5 A Yes.

6 Q You're the one that made that calculation; is that right?

7 A Yes.

8 Q Okay. And so it's that 387 figure -- 387 million figure  
9 that you would then agree to apply the two caps to?

10 A That's correct.

11 Q And if you applied the two caps -- if you applied the  
12 first 20-percent on the ASF -- highest ASF balance, what was  
13 the resulting figure?

14 A That caused the \$387 million to be reduced to  
15 approximately \$226 million.

16 Q All right. And if you go down on this page to the second  
17 to last paragraph -- there we go -- the second bolded  
18 sentence the reference to approximately 230, is that the  
19 figure you're referring to?

20 A Yes, it is.

21 Q You're the one that made that calculation?

22 A Yes.

23 Q Okay. And then if you apply then the second cap, which  
24 is the additional 15 percent added to the 4-1/2 percent on  
25 the pension reductions, what happens to that 230 number?

1 A That \$230 million number goes down to approximately \$203  
2 million.

3 Q All right. Now, if we go back up -- I'm sorry -- to the  
4 previous paragraph, if we look at that sentence, Mr. Moore,  
5 it has a reference to a period of July 1st, 2003, through  
6 June 30th, 2013. Do you see that, sir?

7 A Yes, I do.

8 Q Did an issue arise with respect to that particular  
9 unfortunate wording?

10 A Yes.

11 Q Could you explain to the Court what the issue was?

12 A Very often we were using the words "fiscal year '03  
13 through fiscal year '13." Unfortunately, in drafting that  
14 was interpreted as July 1st of 2003 as the starting date.  
15 Fiscal year '03 begins July 1st of 2002, and so as a result  
16 of that, the city agreed to lop off that first year and  
17 actually begin the excess interest calculation on July 1st of  
18 2003, which is fiscal year '04.

19 THE COURT: How much did that cost?

20 THE WITNESS: That was approximately \$14 million.

21 BY MR. HAMILTON:

22 Q So the sentence in the disclosure statement, to be  
23 accurate, to be 387 million, it would need to say from the  
24 period July 1, 2002, through June 30, 2013; is that correct?

25 A Yes, sir.

1 Q All right. And so when you make the change and have it  
2 for the period July 1st, 2003, to 2013, and then you apply  
3 the two caps, what happens to that \$210 million figure that  
4 had testified?

5 A I believe I mentioned 2003. That drops down to just  
6 about \$190 million.

7 Q And that reflects the answer you just gave to the Court  
8 on what the cost was?

9 A Yes, sir.

10 THE COURT: What's the impact of these caps on the  
11 individual who got a million dollars of excess interest?

12 THE WITNESS: Your Honor, I have not looked at that  
13 individual specifically as to what their recoupment is.

14 BY MR. HAMILTON:

15 Q All right. The third aspect of the settlement that you  
16 testified about was how you go about recouping the money  
17 after you apply the caps.

18 A Yes.

19 Q What was agreed to there?

20 A Number one, for active employees or any employee that  
21 still has an ASF account with a balance that would be  
22 sufficient to accommodate essentially a setoff for the ASF  
23 recoupment amount, assuming the plan is confirmed and as soon  
24 as possible after it goes effective that the ASF account  
25 would be reduced by the amount of the recoupment. The

1   recoupment is calculated as of an amount today.  It's in  
2   today's dollars.  For any individuals whose -- either they  
3   don't have a sufficient ASF balance for that recoupment or if  
4   they've already retired and they've taken a lump sum, then  
5   the ASF recoupment amount -- again, it's an amount in today's  
6   dollars -- is annuitized, meaning that it gets converted into  
7   a monthly amount for the rest of their life, and that is  
8   reduced from their pension payment.

9   Q   All right.

10           MR. HAMILTON:  Could we bring up the very next page  
11   of the disclosure statement, which is page 40 of the PDF?

12           THE COURT:  Isn't this where the city is also giving  
13   the option to pay the amount in one lump sum?

14           THE WITNESS:  Yes, your Honor.

15           MR. HAMILTON:  Yeah.  About to get to that, your  
16   Honor.

17           MR. HAMILTON:  If we could blow up the paragraph B  
18   right in the middle -- thanks.  All right.

19   BY MR. HAMILTON:

20   Q   And just part of the nature of the business of what we do  
21   as lawyers, Mr. Moore, I'm going to ask you to read through  
22   all this, but I want you to focus on the sentence that's  
23   about -- one, two, three -- six lines from the bottom.  It  
24   starts with, "Your annuity savings fund excess amount will be  
25   capped."  Do you see that?

1 A Yes.

2 Q Can you read that sentence out loud, please?

3 A "Your annuity savings fund excess amount will be capped  
4 at 20 percent of your highest ASF account balance during the  
5 period July 1st, 2003, through June 30th, 2013, and that  
6 amount will then be converted into monthly annuity amounts  
7 based on your life expectancy and other factors."

8 Q All right. After this disclosure statement was  
9 circulated, did an issue arise as to what "other factors"  
10 meant in that sentence?

11 A Yes.

12 Q What was the issue?

13 A The primary issue was the fact that "other factors"  
14 includes interest. When you annuitize something, you use an  
15 interest rate.

16 Q It may be obvious to you but perhaps not to some other  
17 people.

18 A Yes. That's correct.

19 Q Okay. So did the city then subsequently clarify what was  
20 meant by "other factors" in a subsequent plan?

21 A Yes.

22 Q And what was the clarification?

23 A We specifically pointed out that it would be annuitized  
24 using a 6.75-percent interest rate.

25 Q Now, at the time that clarification was made, were there

1 any other changes, any options that were provided to people  
2 that had a -- to give them a choice of what to do?

3 A Yes. That actually was while solicitation was ongoing,  
4 and so individuals had the ability to vote yes or no or  
5 approve or reject the plan.

6 Q All right. Did they -- I'm sorry. I meant to ask at  
7 what point -- at some point, were the people that were being  
8 asked to recoup given the option of paying it all at once or  
9 having it annuitized?

10 A So, in addition to that then, Mr. Hamilton, what you're  
11 referring to is we also added an option. If someone who  
12 doesn't have an ASF account balance and would otherwise have  
13 their pension -- monthly pension reduced wanted to just pay  
14 the ASF recoupment now, they would be able to do that subject  
15 to limitations.

16 Q What would be a situation where it would make sense for  
17 someone to do that?

18 A Mr. Hamilton, I don't know if that's appropriate for me  
19 to --

20 Q Okay. Fair enough.

21 A -- provide personal financial advice.

22 Q What is the annuity rate that the plan contemplates if  
23 they chose to have it paid off over time?

24 A 6.75 percent.

25 MR. HAMILTON: And could we bring up City Exhibit

1 60, please, again, page --

2 THE COURT: Well, before we do that and just so  
3 everyone understands here, because the recoupment amount is  
4 annuitized with interest over the person's life expectancy,  
5 if the person lives longer than their live expectancy, they  
6 pay back more than their recoupment amount would otherwise  
7 be; is that right?

8 THE WITNESS: That's correct, your Honor.

9 THE COURT: And vice versa if they don't live as  
10 long as their expected life?

11 THE WITNESS: That's correct.

12 BY MR. HAMILTON:

13 Q Mr. Moore, I asked you some questions about this chart on  
14 Exhibit 60. I believe you started your answer by saying you  
15 prepared -- did you prepare this chart?

16 A Yes, sir.

17 Q And how did you go about preparing it?

18 A I used information directly from the GRS pension system.

19 MR. HAMILTON: Your Honor, I would introduce this  
20 page of City Exhibit 60 into evidence.

21 THE COURT: Any objections?

22 MR. SOTO: No. No objection.

23 THE COURT: It is admitted.

24 (City Exhibit 60, page 8, received at 2:58 p.m.)

25 THE COURT: What page number is it so we can keep

1 our records straight?

2 MR. HAMILTON: It's page 8 of Exhibit 60.

3 THE COURT: Thank you.

4 MR. SOTO: That one right there? That's 7.

5 MR. HAMILTON: Okay. It's labeled page 7 down in  
6 the bottom right-hand corner. It's the eighth page of the  
7 exhibit.

8 THE COURT: I want the label number.

9 MR. HAMILTON: Sorry.

10 THE COURT: Okay. So it's labeled page 8.

11 MR. HAMILTON: It's labeled -- yes, yeah, that  
12 number, yes. It's the seventh page of the report. The cover  
13 page doesn't count.

14 THE COURT: We want the -- we want the labeled page.

15 MR. HAMILTON: Okay.

16 THE COURT: Okay.

17 BY MR. HAMILTON:

18 Q All right. Mr. Moore, let's go to our final topic for  
19 your examination, which is --

20 THE COURT: Actually, before we do that, I'd like to  
21 take our afternoon break. So it's three o'clock. We'll  
22 reconvene at 3:15, please.

23 THE CLERK: All rise. Court is in recess.

24 (Recess at 2:59 p.m., until 3:15 p.m.)

25 THE CLERK: All rise. Court is in session. Please



1 be seated.

2 MR. HERTZBERG: Your Honor, Robert Hertzberg for the  
3 City of Detroit.

4 THE COURT: One second, please. That's okay. Looks  
5 like everyone is here. Sir.

6 MR. HERTZBERG: Your Honor, our next witness is Beth  
7 Niblock. She's on standby right now. It appears Mr.  
8 Hamilton indicated to me that he would be -- would have  
9 Mr. Moore another half hour on direct. Based upon that, that  
10 would take us to a quarter to four, and then there will be  
11 some cross by some of the objectors. I wanted to be able to  
12 release Ms. Niblock today if we were to end at 4:30, not have  
13 to bring her over and start her direct. Has the added  
14 benefit also of allowing me to get to my child's birthday  
15 party that starts at five.

16 THE COURT: Does that request include me taking an  
17 extra half an hour off of the city's time?

18 MR. HERTZBERG: No, but if you want me to start her  
19 and then break her testimony up, I'll do that, but it would  
20 break the flow of her testimony up. But we'll do whatever  
21 you want, your Honor.

22 MR. SOTO: Your Honor, if it would help your  
23 thinking about it, I have about 15 minutes of cross.

24 MS. QUADROZZI: And, your Honor, that's probably  
25 about what I have, although I don't know what's going to

1 happen in the next 30 minutes.

2 THE COURT: Well, all right. Something you wanted  
3 to say, sir?

4 MR. FIELDS: I've got approximately a couple hours.

5 THE COURT: All right. You can release the witness  
6 till tomorrow morning.

7 MR. HERTZBERG: Thank you, your Honor.

8 MR. HAMILTON: Your Honor, I assure you this is not  
9 a cheap ploy to make a sales pitch for \$150 million in IT,  
10 but we have a glitch here on getting our exhibits up on the  
11 screen. I don't know if it's about to get resolved. Let me  
12 check.

13 THE COURT: We can pause for that.

14 BY MR. HAMILTON:

15 Q All right. Mr. Moore, move now to one of our favorite  
16 topics, the Department of Water and Sewerage for the City of  
17 Detroit. When did Conway MacKenzie first engage with DWSD?

18 A In July of 2013.

19 Q All right. And why?

20 A Conway MacKenzie was asked to assist DWSD, which I will  
21 refer to as the Detroit Water and Sewerage Department, with  
22 the development of a set of ten-year financial projections.

23 Q All right.

24 MR. HAMILTON: Can we bring up City -- the  
25 disclosure statement, City Exhibit 3? I believe it's page

1 690, which should be, I believe, Exhibit M to the disclosure  
2 statement.

3 THE COURT: Think.

4 MR. HAMILTON: Only for demonstrative purposes, your  
5 Honor, page 1. There we go.

6 BY MR. HAMILTON:

7 Q Are these the projections that you just testified about?

8 A Yes. Exhibit M to the fourth amended disclosure  
9 statement.

10 Q Who prepared these projections?

11 A Conway MacKenzie did.

12 Q Why was Conway asked to prepare those projections?

13 A As part of the restructuring activities, the city was  
14 going to explore options related to DWSD and needed ten-year  
15 financial projections in order to do that. In the past, the  
16 DWSD has only prepared financial projections going out five  
17 years.

18 Q Okay. How were these projections developed?

19 A The projections were developed essentially by working  
20 with the DWSD management team to take existing financial  
21 projections and then go through really on a line-by-line  
22 basis to project out through the period June 30th, 2023,  
23 using a variety of assumptions.

24 Q Okay. And who is it at DWSD that you interacted with?

25 A There are multiple individuals. The two with whom we had

1 the most interaction were Nicki Bateson, the CFO of DWSD, and  
2 then Mr. Bart Foster, who is an outside rate consultant to  
3 DWSD.

4 Q Okay. Were there any other outside consultants other  
5 than Mr. Foster that were utilized to help you prepare these  
6 ten-year projections?

7 A Yes. And just to clarify, Mr. Foster, while he is an  
8 outside advisor, he has been with DWSD for decades. We also  
9 utilized an outside group by the name of OHM Advisors to  
10 assist with the capital improvement plan, which is a  
11 component of the ten-year financial projections.

12 Q Now, does --

13 THE COURT: Excuse me one second. I have been asked  
14 to ask you to back away from the microphone a bit. Let's try  
15 that and see if that works any better.

16 BY MR. HAMILTON:

17 Q Does the department have its own capital improvement  
18 plans?

19 A The department did have its own capital improvement plan.  
20 It did not go out ten years.

21 Q Okay. What is the -- what is the range of the  
22 department's capital improvement plan?

23 MS. QUADROZZI: Objection, your Honor. I'll sit  
24 down so I'm speaking into the microphone.

25 THE COURT: Oh, yeah, good idea.

1 MS. QUADROZZI: But I stood up on habit.

2 THE COURT: Good habit.

3 MS. QUADROZZI: Your Honor, the objection is based  
4 on the fact that while this witness has been qualified -- let  
5 me get my notes because I wrote it down -- as an expert on  
6 advising municipal corporate entities on organizational  
7 turnarounds and restructuring, including operational and  
8 financial revitalization, he did not offer any opinions in  
9 his expert report on DWSD and affirmatively stated in his  
10 deposition that he --

11 THE COURT: I have to stop you because this question  
12 did not ask for an expert opinion, so the objection is  
13 overruled.

14 BY MR. HAMILTON:

15 Q What is the time period of the department's own  
16 internally created capital improvement plans?

17 A Five years.

18 Q All right. Did the department have any capital  
19 improvement plans that they had created that went for the  
20 next ten years?

21 A No.

22 Q All right. Who made the decision -- who is it that you  
23 retained to do the ten-year projections?

24 A I just want to clarify, Mr. Hamilton. Conway MacKenzie  
25 didn't retain anyone. The City of Detroit retained OHM

1 Advisors.

2 Q All right. And how -- do you know how OHM was selected?

3 A Yes. In discussing with DWSD management at the time that  
4 the projections were to be prepared -- this is in the summer  
5 of 2013 -- the capital improvement plan clearly was going to  
6 be a critical element of those projections, and so we wanted  
7 to ensure that we had very well-versed engineering resources  
8 that would be able to develop a credible plan, capital  
9 improvement plan. Another aspect was speed. it was very  
10 important that the capital improvement plan be able to get  
11 put together in short order, and so based on the previous  
12 experience that OHM had with the city, significant knowledge  
13 specifically of DWSD assets, the city decided to engage OHM  
14 Advisors.

15 Q Okay. And do you have any knowledge as to who at OHM led  
16 that analysis?

17 A Yes. Mr. Vydo Kaunelis.

18 Q And do you know what his experience was that led to the  
19 selection of OHM?

20 A Yes. He has specific experience with DWSD and the assets  
21 that were going to be looked at and addressed through the  
22 capital improvement plan.

23 Q Are you familiar with Mr. Kaunelis' experience with Wayne  
24 County?

25 A Yes. I believe that he has also done work with Wayne

1 County.

2 Q All right.

3 MR. HAMILTON: Could we bring up City Exhibit 178?

4 BY MR. HAMILTON:

5 Q Is this the OHM report that you referred to?

6 A Yes, it appears to be.

7 Q And you'll see that there is a bunch of other logos down  
8 there below the OHM logo. Do you know what those refer to?

9 A Yes. These are additional organizations that  
10 participated in the development of the capital improvement  
11 plan. It was led by OHM.

12 Q All right. And did you use this report in preparing the  
13 projections -- the ten-year projections that are Exhibit M to  
14 the disclosure statement?

15 A Yes, sir.

16 Q All right.

17 MR. HAMILTON: Your Honor, I would introduce  
18 into -- or offer into evidence the City Exhibit 178 not for  
19 the truth of the matter asserted but as to what they relied  
20 upon in creating the projections that are Exhibit M to the  
21 disclosure statement.

22 THE COURT: Any objections?

23 MS. QUADROZZI: With that clarification, no, your  
24 Honor.

25 THE COURT: All right. With that limitation,

1 Exhibit 178 is admitted.

2 (City Exhibit 178 received at 3:26 p.m.)

3 MR. HAMILTON: And I guess, your Honor, just for  
4 purposes of the record, I'd also like to introduce -- offer  
5 into evidence as evidence of what the projections are Exhibit  
6 M to the disclosure statement. Is the disclosure statement  
7 already in evidence? It's already in evidence. My mistake,  
8 your Honor.

9 BY MR. HAMILTON:

10 Q With respect to the capital improvements that are in your  
11 projections, what are the -- what are the projections that  
12 you have for capital improvements in your ten-year  
13 projections?

14 A There are two different types within the Exhibit M.  
15 There's what is contained within the ten-year capital  
16 improvement plan here, which is approximately \$2.3 billion  
17 between the water and the sewer funds, and then there was a  
18 provision made for additional capital expenditures for  
19 unknown items in future years that add approximately \$600  
20 million, so the total capital improvement plan included in  
21 Exhibit M is approximately \$2.9 billion.

22 Q All right. And in preparing the ten-year projections for  
23 the department, what assumptions, if any, did Conway  
24 MacKenzie use with respect to water and sewer rates?

25 MS. QUADROZZI: Objection, your Honor. A projection



1 by its nature is an opinion. He is not an expert. He  
2 specifically said in his deposition he was offering no expert  
3 opinion as to anything related to DWSD. They are clearly  
4 trying to end-run around it and create an expert to testify  
5 as to projections, which, again, by -- they clearly are not  
6 facts. He has no factual basis. It can only be based on his  
7 assumption and his opinion, and on that basis, the testimony  
8 should be prohibited.

9 MR. HAMILTON: I think the assertion that it can  
10 only be based on his assumptions and opinions is incorrect.  
11 I can lay a further foundation, but I believe the witness has  
12 already testified that he did extensive interviews with DWSD  
13 personnel and his team reviewed extensive documentation and  
14 prepared their projections based on those reviews. I don't  
15 think that's just assumptions and opinions. The projections  
16 are just that, they're just projections. I haven't asked him  
17 to issue an expert opinion as to whether those projections  
18 are reliable, reasonable, or anything other than how he  
19 prepared them, but they are the projections that were  
20 attached to the disclosure statement, and I believe we are  
21 entitled to put into evidence the basis for those  
22 projections.

23 MS. QUADROZZI: Your Honor, if I may, I would like  
24 to read for the record the testimony that Mr. Moore provided  
25 at his deposition.

1           THE COURT: Well, but given that the projections are  
2 in evidence, why is it improper to ask the witness the  
3 assumptions that went into them?

4           MS. QUADROZZI: Because the projections are an  
5 opinion, and --

6           THE COURT: But they're already in evidence.

7           MS. QUADROZZI: The paper is in evidence. He's  
8 going to outline the assumptions. There is no basis for  
9 additional expert testimony on this. The assumptions, to the  
10 extent that your Honor believes that we can just rely on the  
11 paper, the written assumptions are in the paper. That is the  
12 evidence. Had they wanted to bring an expert in to testify  
13 about the assumptions, then there would be an expert whose  
14 report I got that I could have said, "Are these your  
15 opinions, and on what assumptions did you reach this  
16 opinion?" Instead, when he was deposed --

17           THE COURT: You got his report.

18           MS. QUADROZZI: His report has nothing about DWSD,  
19 and his testimony says --

20           THE COURT: Of course it does. Of course it does.  
21 It's in the disclosure statement. You got that.

22           MS. QUADROZZI: Your Honor, that is a complete end-  
23 run around the rule requiring experts to identify their  
24 reports, the basis on which they rely, and that allow an  
25 opportunity to be deposed. What he's now doing is asking the

1 basis on which he relied when he -- when the city did not  
2 provide that information to us in the way of discovery.

3 THE COURT: Are you offering the witness as a lay  
4 expert?

5 MR. HAMILTON: Yes, your Honor. I haven't asked him  
6 to enter -- give us any expert opinion on any of the  
7 projections. I'm just asking how they were prepared. I'm  
8 not asking him to testify as to whether or not he thinks  
9 they're accurate or not. He's the one that prepared them  
10 based on the department's data. Ms. McCormick will testify  
11 at a later time as to the --

12 THE COURT: This is not lay opinion testimony. I'm  
13 going to sustain the objection.

14 MR. HAMILTON: Okay. Fair enough.

15 BY MR. HAMILTON:

16 Q The projections that are contained in Exhibit M to the  
17 disclosure statement reflect the payment of DWSD's allocable  
18 share of the GRS unfunded liability; is that right?

19 A Yes.

20 Q All right. Did you participate in the calculation of  
21 that -- of the DWSD's allocable share of the unfunded  
22 liability of GRS?

23 A Yes.

24 Q All right. What was your involvement in connection with  
25 preparing that calculation?

1 A I worked with the city's actuary, Milliman, to understand  
2 and develop assumptions that were used to calculate the  
3 amount of that liability.

4 Q Okay. What are the -- how did you go about calculating  
5 that liability?

6 A That liability -- just to take a step back, the GRS  
7 pension system has four different divisions to it. One of  
8 those divisions is for the water and sewer department, water  
9 and sewerage department. As such, the GRS system calculates  
10 the funded position for each one of those divisions, DWSD  
11 being one of those. In conjunction with --

12 THE COURT: When you say it calculates it, do you  
13 mean in the ordinary course of business?

14 THE WITNESS: Yes, sir. So there were two items  
15 that were looked at as it relates to the DWSD pension  
16 liability. One was rolling forward, as was done for all  
17 divisions within GRS, an estimate as to the unfunded  
18 liability as of June 30th of 2014. The second part was to  
19 estimate what that unfunded liability would be as a result of  
20 the actions contemplated in the plan of adjustment.

21 BY MR. HAMILTON:

22 Q What amount is projected to be paid by the department --  
23 the Department of Water and Sewer between now and 2023 to pay  
24 off its unfunded liability?

25 A The projections contemplate DWSD contributing \$428

1 million to the GRS pension system related to its unfunded  
2 liability as of June 30th, 2014, as adjusted under the  
3 plan --

4 Q All right.

5 A -- between now and June 30th of 2023.

6 Q All right. Now, of that -- is it 428 or 428.5?

7 A 428.5.

8 Q What are the components of that 428.5? Can you break it  
9 down any further?

10 A Yes. It's made up of three items. The first item  
11 relates to the contributions for the unfunded liability  
12 itself. The calculation of the unfunded liability as of June  
13 30th of 2014, taking into account the planned actions or the  
14 reductions in the plan of adjustment, that unfunded liability  
15 is approximately \$292 million as of June 30th of 2014.

16 Q And can I just make sure the record is clear? Are you  
17 the person that calculated that 292 million figure?

18 A I am not.

19 Q Who did?

20 A Milliman.

21 Q Okay. Please continue.

22 A So the \$292 million is paid off between now and 2023  
23 using a 6.75-percent interest rate, which is the interest  
24 rate that is assumed in GRS going forward under the plan.  
25 That results in approximately \$386 million in contributions

1 during that time period. In addition to that, there are two  
2 other elements. One is \$20 million as an allocation of the  
3 \$130 million in professional fees that we discussed before,  
4 and then lastly is the DWSD portion of pension administrative  
5 costs, which are \$2.5 million per year, which is an  
6 additional \$22.5 million during that time period. So the  
7 three --

8 THE COURT: Who calculated those two categories?

9 THE WITNESS: The \$20 million was calculated by  
10 Ernst & Young, and that was based on, again, an allocation of  
11 professional fees, and the \$2.5 million was calculated by  
12 Milliman in conjunction with Ernst & Young.

13 THE COURT: I have to ask why are we having this  
14 witness testify to calculations that others did?

15 MR. HAMILTON: I think the truthful answer is, your  
16 Honor, is that some of the figures were calculated by Conway,  
17 some were prepared by Milliman, and some were prepared by --

18 THE COURT: I didn't hear that. What I heard him  
19 say was that two of them were done by Milliman and one of  
20 them was done by -- what was the other one --

21 THE WITNESS: Ernst & Young.

22 THE COURT: -- Ernst & Young.

23 MR. HAMILTON: All right.

24 BY MR. HAMILTON:

25 Q What role did you have in --

1           MR. HAMILTON: I believe he testified initially that  
2 he had a role in calculating these amounts, your Honor, so  
3 let me go back.

4 BY MR. HAMILTON:

5 Q Did you have any role in calculating --

6           THE COURT: All right. If you can -- if you can fix  
7 it, go for it.

8 BY MR. HAMILTON:

9 Q Did you have -- what role did you have in calculating the  
10 \$428.5 million payment -- payments by the Department of Water  
11 and Sewer over the next nine years?

12 A To go back to my answer previously, I worked very closely  
13 with Milliman on the underlying assumptions that went into  
14 that unfunded liability calculation, the 292. The 292 is --  
15 in order to have that final number, it requires an actuary to  
16 calculate that, and so Milliman performed the final  
17 calculation, but I certainly played a very key role in coming  
18 up with the assumptions and then facilitating that  
19 calculation of the 292. I worked very closely with Ernst &  
20 Young as it relates to the other two components, both the  
21 administrative costs as well as the professional fee  
22 allocation.

23           THE COURT: Well, is it your testimony that even  
24 though you didn't prepare those calculations, somebody else  
25 did, those are accurate calculations?

1 THE WITNESS: Yes, your Honor.

2 THE COURT: How do you know that?

3 THE WITNESS: Because I've done my own due diligence  
4 on those numbers, the underlying data sources and the  
5 calculations themselves.

6 THE COURT: All right.

7 BY MR. HAMILTON:

8 Q All right. Did you participate in the city's decision-  
9 making as to what period of time the Department of Water and  
10 Sewer would pay off this -- to pay off and resolve its 428.5  
11 unfunded liability?

12 A Yes, I did.

13 Q Okay. What were the considerations that the city  
14 undertook in determining what period of time it would pay  
15 this period -- pay the unfunded liability off in?

16 A There were really two considerations. The first, in the  
17 plan of adjustment, the assumed rate of return that's used  
18 for the General Retirement System is 6.75 percent going  
19 forward, so that means that the liability is increased by  
20 6.75 percent every year. To the extent -- this is really  
21 just simply a matter of cost of capital. If you have the  
22 cash and your cost of capital is less than 6.75 percent, it  
23 makes sense to pay that off sooner rather than later. So the  
24 first consideration is the projections showed that DWSD could  
25 pay these amounts, contribute these amounts related to the



1 unfunded liability by --

2 MS. QUADROZZI: Objection, your Honor. He's  
3 testifying about what the DWSD could pay, and he's clearly  
4 offered no opinion as to what is available in the DWSD's  
5 budget.

6 THE COURT: The objection is overruled. Go ahead.

7 THE WITNESS: So if the cost of capital is less than  
8 6.75 percent, it makes sense to pay that off sooner rather  
9 than later, and, as such, the contributions are paid off by  
10 2023. The second part is that those contributions go into  
11 the pool of GRS assets. The amount of GRS assets that are  
12 contemplated to exist during this time period was a critical  
13 element in reaching settlements with the various parties  
14 related to pension reductions.

15 BY MR. HAMILTON:

16 Q Did the city -- when it was making its decision as to the  
17 time period in which the -- it would have the department pay  
18 off its unfunded liability, did the city have an  
19 understanding as to what the cost of capital would be for the  
20 Department of Water Sewer going forward if the plan of  
21 adjustment was confirmed?

22 A Yes. It had a good estimate.

23 Q What was the estimate?

24 A Approximately 5.5 percent.

25 Q And are you familiar with what the all-in true interest

1 cost was for the 150 million of new money financing that the  
2 department just closed last week?

3 A Yes.

4 Q What is it?

5 A 5.03 percent.

6 Q Below 6.75 percent; is that right?

7 A Yes.

8 Q All right.

9 THE COURT: So did you calculate the dollar savings  
10 from the difference?

11 THE WITNESS: I did, your Honor.

12 THE COURT: What is it?

13 THE WITNESS: If the unfunded liability as of 2014,  
14 June 30th of 2014, had been paid out over a longer period of  
15 time -- and I'll give you a specific number -- if that was  
16 paid out over 30 years at 6.75 percent, that would result in  
17 over \$800 million of payments versus the 386 that are  
18 contemplated under the scenario paying it off earlier.

19 THE COURT: Okay. But that \$800 million figure is  
20 future money?

21 THE WITNESS: That's assuming a longer -- taking a  
22 longer period of time. You're correct.

23 THE COURT: Okay. But -- okay. Go ahead.

24 MR. HAMILTON: All right.

25 BY MR. HAMILTON:

1 Q Mr. Moore, do you have an understanding as to what  
2 happens under the plan with respect to the Department of  
3 Water and Sewer's obligation to pay off its unfunded  
4 liability in year 2023 -- in year 2023?

5 A Yes.

6 Q What happens?

7 A Because the pension liability, as contemplated in the  
8 plan, the DWSD as well as all of GRS is closed and frozen,  
9 there are really only two variances that can occur in the  
10 future. One is investment variance or investment return  
11 variance, and the other is actuarial variance, people live  
12 longer or shorter than anticipated. To the extent that the  
13 contributions made between now and 2023 results in a funded  
14 position greater or less than 100 percent, there would have  
15 to be a mechanism -- or I shouldn't say there would have to  
16 be. There could be a mechanism to true that up at that time.

17 Q And how would that be done?

18 A There are two options. I'll give two examples. In the  
19 instance where the amount contributed was not sufficient,  
20 there were unfavorable either investment variances or  
21 actuarial variances, DWSD would then have to make additional  
22 contributions to fund that remaining unfunded liability. To  
23 the extent that the contributions that happen between now and  
24 2023 caused it to be in a greater than 100-percent funded  
25 position, one of two things could happen. Either that

1 amount -- that overage could retain -- be retained to allow  
2 for future unfavorable variances related to investments or  
3 actuarial results or the general fund of the city could  
4 reimburse DWSD to bring DWSD down to a hundred percent. It  
5 would require an accounting allocation within GRS for those  
6 reimbursements. Those would be the options.

7 Q Okay. Is there anything in the plan of adjustment that  
8 prevents either of those options from occurring?

9 A No, sir.

10 Q Okay.

11 THE COURT: Is there anything in the plan that  
12 requires them?

13 THE WITNESS: No, sir.

14 BY MR. HAMILTON:

15 Q If you do that true-up -- excuse me.

16 THE COURT: On your first question, whether there's  
17 anything in the plan that prevents them, I'm going to accept  
18 the witness' lay answer to that. It's a very complex legal  
19 question.

20 MR. HAMILTON: And I believe that it will be  
21 addressed by the lawyers in argument.

22 BY MR. HAMILTON:

23 Q Just to complete that particular topic, if you do the  
24 true-up in year 2023, is that the last time you do the true-  
25 up?

1 A No. The true-up would then occur on an annual basis.

2 Q Because why?

3 A In the ordinary course, the pension system, GRS, has an  
4 actuarial valuation performed at which time a determination  
5 would be made as to what the funded position is.

6 MR. HAMILTON: Thank you very much, Mr. Moore. I  
7 have no further questions.

8 THE COURT: Okay.

9 CROSS-EXAMINATION

10 BY MR. SOTO:

11 Q Mr. Moore, it's good to see you again. I'm Ed Soto of  
12 Weil, Gotshal & Manges, and I'm here representing FGIC, and I  
13 have just a few questions for you.

14 A Okay.

15 Q You've been up there all day. I'm going to speak about  
16 three areas just to give you context. I'll ask you some  
17 questions that I think relate to the work that you were  
18 tasked to do so I can get a little bit better picture of it,  
19 and then I'll go into questions about the work you weren't  
20 tasked to do just to sort of narrow it out and understand  
21 what you didn't do, and then I'm going to ask one or two  
22 questions about pensions fairly quickly.

23 A Okay.

24 Q First of all -- and this might be an obvious one to warm  
25 me up. You've been going all day. Neither you nor your

1 colleagues at Conway MacKenzie have ever been involved in a  
2 Chapter 9 proceeding, a municipal bankruptcy of the magnitude  
3 of Detroit; correct?

4 A Could you define what you mean by "magnitude," Mr. Soto?

5 Q I mean in terms of the scope of the work that you were  
6 being asked to do in terms of reviewing departments.

7 A I think from a debtor's standpoint, that's a fair  
8 statement.

9 Q And, in fact, prior to this case, neither you nor, to the  
10 best of your knowledge, your colleagues at Conway MacKenzie  
11 had ever been engaged to represent a debtor in a Chapter 9  
12 proceeding; correct?

13 A That's correct.

14 Q Now, your engagement required that you analyze -- I want  
15 to make sure I got this correct -- was it each of the city's  
16 operating departments as well as one non-operating  
17 department?

18 A Actually, it was all of the general fund departments and  
19 then select enterprise funds that impacted the general fund  
20 along with, as you mentioned, the 36th District Court.

21 Q Okay. And was that more than 35 different departments?

22 A Yes, sir.

23 Q Now, you would agree with me that the 35 departments or  
24 so that you reviewed, that was more departments analyzed for  
25 any municipality that you'd ever done work for before;

1 correct?

2 A Yes.

3 Q And as you were reviewing those departments, if I  
4 understand it correctly, your primary objective was to  
5 develop a restructuring plan that, at least in your opinion,  
6 would bring each of those departments to a level of service,  
7 level of performance, that, in your opinion, they should be  
8 meeting; correct?

9 A Level of service that was adequate. That's correct.

10 Q Okay. And so you were tasked in doing that to identify  
11 deficiencies if you saw them; right?

12 A Yes.

13 Q And you were also tasked, if I understood what you were  
14 saying, to also try to identify ways to fix those  
15 deficiencies; right?

16 A Yes.

17 Q And then you were tasked to try to identify cost  
18 reductions, correct --

19 A Yes.

20 Q -- if there were some?

21 A And just to clarify on your previous question, Mr. Soto,  
22 we were not tasked with correcting every deficiency.  
23 Obviously it was important to identify deficiencies and then  
24 determine what needed to occur to have the department  
25 providing adequate levels of services.

1 Q So somewhere in the concept of adequate, there might be  
2 some deficiencies that you just couldn't fix right now;  
3 correct?

4 A That's right.

5 Q Understood. And then in addition to those areas, you  
6 were tasked to determine if there were some revenue  
7 initiative activities that the departments you were working  
8 with could undertake; correct?

9 A That's right.

10 Q And you did that for a period of time starting in January  
11 of 2013, and after you'd done it for a period of time, you  
12 came to a point in June where you produced a report; correct?

13 A Yes.

14 Q And that report, the June 13 -- or June 14, right, 2013,  
15 report, that was essentially the first time that you  
16 presented your -- can I call them RRI's? You know what I'm  
17 talking about there?

18 A Yes. When you say RRI's, I know that refers to  
19 restructuring and reinvestment initiatives. That's a fine  
20 name.

21 Q That's good because that's a tongue twister if you try to  
22 say it a lot of times.

23 A Yes.

24 Q So the RRI's, that was -- the first time you presented  
25 them in a whole form was in -- June 13, 2014; correct?



1 A June 14th of 2013, yes.

2 Q And at that time, am I correct that you recommended that  
3 the city should spend about 250 million over ten years on  
4 restructuring initiatives and about a billion dollars over  
5 ten years on reinvestment initiatives?

6 A Yes. It was approximately a billion dollars, you're  
7 correct, in terms of the net reinvestment, if you will, \$950  
8 million specifically.

9 Q I round up. I'm not like Mr. Hamilton on that point,  
10 half, but, anyway, and that recommendation that you made that  
11 you just described, you made it to the emergency manager,  
12 Mr. Orr; correct?

13 A Yes, sir.

14 Q And did he accept that recommendation?

15 A Yes.

16 Q And he included it in a report that he gave to creditors;  
17 correct?

18 A Yes.

19 Q And the decision to do that analysis, was that because  
20 you were tasked -- you were asked to do it by someone within  
21 the city?

22 A Yes.

23 Q And who was that person again?

24 A That was actually part of our original contract  
25 specifically to identify, evaluate, develop, and implement

1 the short- and long-term restructuring actions.

2 Q And did you work with a fellow -- I think you mentioned  
3 the name Chris Andrews -- in connection with that engagement  
4 and getting it clarified?

5 A Yes. Mr. Andrews was the program management director for  
6 the City of Detroit at the time that Conway MacKenzie was  
7 engaged in January of 2013.

8 Q And during the period of time you were working with the  
9 city, did Mr. Andrews become the chief operating officer of  
10 the city?

11 A Yes, he did.

12 Q Now, just so that it's clear, Mr. Andrews didn't come to  
13 you and say, "Look, I've got \$1.25 billion here. I want you  
14 to go into those departments and figure out how to divide  
15 that and how to spend it and see if you can get them better."  
16 That's not how it worked; right?

17 A He did not say that.

18 Q And that's what you meant when you described to the Court  
19 bottoms up. You were told go out there and find out what  
20 these departments need to meet the three goals that we were  
21 talking about and then tell me what it's going to cost;  
22 correct?

23 A I would say the second part of your question, no one  
24 said, "Tell us what it's going to cost." It was clear that  
25 there was going to be a cost after we developed all of this.

1 Q So after you developed all of it, again, with free range  
2 of thought, correct, then you figured out, well, this is what  
3 it's going to cost? Is that how it worked out?

4 A Yes, sir.

5 Q Now, at the time that you and Conway MacKenzie initially  
6 put together the RRI's that were included in the June 2013  
7 report, the City of Detroit had not filed for bankruptcy, had  
8 it?

9 A Correct. It had not.

10 Q And it was not known at the time whether or not the city  
11 would, indeed, file for bankruptcy; correct?

12 A That's correct.

13 Q And at that time, you felt that the 1.25 billion would be  
14 sufficient to meet the goals that you were talking about for  
15 the City of Detroit outside of bankruptcy; correct?

16 A Yes, sir.

17 Q And your analysis of what the things were that had to be  
18 fixed, that would have been your analysis whether or not the  
19 city ever filed; correct?

20 A That is what should happen in order to provide adequate  
21 levels of services. That's right.

22 Q Now, after the city filed the Chapter 9 proceeding, the  
23 one we're here on today, you and Conway MacKenzie continued  
24 to assess different departments and maybe look deeper into  
25 the ones you had looked at; correct?

1 A Yes, sir.

2 Q And you did that by, in the way that you described in  
3 your testimony earlier, taking into account all the facts  
4 that you could find, the ones that you could see when you  
5 went to the departments, the ones that the department heads  
6 had for you, and, where there were any, the ones where third-  
7 party consultants supplied data; correct?

8 A That's right.

9 Q Now, if there was an issue, for example, of, well, one  
10 guy says they need 30 cars, and another guy says they only  
11 need 15 cars, you didn't do any empirical studies or surveys  
12 or anything like that to find out who was right. You just  
13 tried to use the data you had and come up using benchmarks to  
14 the opinion you came; right?

15 A That's incorrect.

16 Q How did you do it?

17 A We had numerous situations like that, and what we would  
18 do is we would seek to obtain as much data as we could to  
19 understand what the right answer was or what the best answer  
20 was, and so we would seek out, for example, additional  
21 benchmark data to determine whose position was more  
22 appropriate or better founded, if you will.

23 Q Okay. Now, in connection with setting up the report that  
24 you put together for the June 2013, you knew by the time you  
25 did that report in June 2013, for example, that there had

1 been -- was it 210 parks that had been closed back in 2009;  
2 correct?

3 A Yes, sir.

4 Q And you analyzed the Parks and Recreation Department, and  
5 you applied your benchmarks, and you did all the things that  
6 you just described to me in that analysis; correct?

7 A Yes, sir.

8 Q And in your June 2013 report, you left those parks  
9 closed; correct?

10 A That's right.

11 Q Now, at some point you decided to change your opinion on  
12 that; correct?

13 A Yes.

14 Q And did you do any additional empirical studies or  
15 surveys to change your opinion on that?

16 A That specifically came about after the election of the  
17 current mayor. Certainly the mayor immediately got involved  
18 with the reinvestment initiatives and laid out his vision as  
19 it relates to the recreation department, and as a result,  
20 those initiatives were refined.

21 Q So you didn't do any additional studies, but the mayor  
22 told you what was a priority to him, and then you said,  
23 "Well, if that's a priority to you, we'll go ahead and spend  
24 this \$37 million more"?

25 A Actually, we did additional analysis. The mayor pointed

1 out a variety of reasons as to why the parks were important,  
2 and we did do additional analysis as it relates to costs for  
3 maintaining those parks, but the mayor's sort of policy  
4 direction certainly laid out that path.

5 Q So the analysis you did was how much it would cost;  
6 correct?

7 A I think that's a fair statement.

8 Q You didn't do any empirical studies on what it means to  
9 the health, education, and welfare of the city, did you?

10 A Those are very soft issues that are very difficult to  
11 have any sort of quantitative understanding of the impact.

12 Q And the answer is you didn't do that, did you?

13 A I think that's fair to say, the type of analyses that you  
14 just indicated.

15 Q Now, let me ask, if I can, what you weren't tasked to do  
16 so I can understand the scope of your area here. After the  
17 city filed the Chapter 9 proceeding, the one you're here on  
18 today, you continued to do the analysis that you talked  
19 about, and you were trying to reassess the RRI's, but in  
20 doing so you weren't tasked with considering what was fair  
21 and equitable to the city's creditors, were you?

22 A I participated -- I myself participated in many sessions  
23 both in mediation and outside of mediation crafting the  
24 overall plan of adjustment, which certainly contemplates  
25 treatment for various classes of creditors.

1 Q Right. Did you do any analysis in connection with coming  
2 up with the RRI's to determine what was fair and equitable to  
3 the city's creditors is what I'm asking?

4 A Yes.

5 Q And what was that?

6 MR. CULLEN: Be careful about whether this was in  
7 connection with the mediation or not.

8 THE WITNESS: Understood. The analysis of what  
9 happens to the city if it's not able to perform adequate  
10 services, that certainly is an ongoing analysis that we have  
11 been looking at where the changes, the reinvestment  
12 initiatives for a particular department -- we are always  
13 assessing whether something is necessary or not, and so in  
14 that context, clearly having -- this is my view  
15 specifically -- a city that is able to perform adequate  
16 services is key for any sort of creditor recovery regardless  
17 of who that is.

18 BY MR. SOTO:

19 Q In the context of Chapter 9. And other than that, was  
20 there anything else that you performed to determine fair and  
21 equitableness?

22 A I think that the way I described it is certainly one  
23 element, but it -- the fair and equitable aspect is pervasive  
24 throughout any decision that's made as it relates to  
25 reinvestment initiatives.

1 Q Now, Mr. Moore, you were deposed in December of 2013 in  
2 connection with these proceedings, weren't you?

3 A Yes.

4 Q Do you recall being asked the question, "So I think this  
5 should be obvious from your testimony, but let me ask it  
6 anyway, which is isn't it true that as Conway MacKenzie was  
7 assessing how much to spend on restructuring and reinvestment  
8 initiatives, it was not considering what was fair and  
9 equitable to the city's creditors?" question mark? Do you  
10 remember that question?

11 A I don't remember that specific question, no.

12 Q Let me see if I can approach and give you a copy of it.

13 A Thank you.

14 Q See on line 92 the question -- page 92, line 6? Did I  
15 read it to you accurately?

16 A Give me a minute. I'm just reading before and after,  
17 please. Yes.

18 Q Does that refresh your recollection about your answer,  
19 which I believe on the transcript says, "And I think that's a  
20 fair statement. We were focused on what was necessary to  
21 make the city operate effectively"?

22 A Yes.

23 Q Was that true then?

24 A Yes.

25 Q Is it true now?



1 A I think as I have continued on in this process from  
2 December through July when this -- the final reinvestment  
3 initiatives were published that that aspect as it relates to  
4 creditor treatment has certainly come into play with the  
5 reinvestment initiatives. Prior to -- or at the time -- at  
6 this time in December, the city had not proposed a plan at  
7 all, and subsequent to that, obviously the city has gone  
8 through multiple versions of its plan.

9 Q Yeah. You haven't given any opinions on the fair and  
10 equitableness of this plan, have you?

11 A Correct, I have not.

12 Q Do you intend to give any opinions on that?

13 A No.

14 Q Okay. Let's continue to see if we move forward on -- and  
15 in connection with what you have done for the city under your  
16 engagement with respect to the RRI's, isn't it true that  
17 while you and Conway MacKenzie were assessing how much to  
18 spend on them, you did not perform an analysis to determine  
19 whether or not the plan discriminated against Class 9  
20 creditors, for example? Is that accurate?

21 A That's accurate.

22 Q Is it true that while you were doing the RRI's, you have  
23 not formed any opinions on whether or not the DIA settlement,  
24 for example, meets the requirements of Bankruptcy Rule 9019?  
25 Is that true?

1 A That's correct.

2 Q Is it true that whether -- while you and Conway MacKenzie  
3 were assessing how much to spend again on the RRI's, you  
4 didn't consider what was in the best interest of the city's  
5 creditors? That wasn't part of your charge; correct?

6 A I think best interest underlies a lot of what we've done  
7 with the reinvestment initiatives.

8 Q Let me see if I can delve into that. So if you were  
9 looking at the police department and trying to assess how  
10 many cars they needed, as you testified earlier, you did that  
11 based on benchmarks for what police departments of this size  
12 should have for the city that it's covering; correct?

13 A Yes, sir.

14 Q And you gave an assessment with those benchmarks of what  
15 you think the RRI's should say; correct?

16 A Yes, sir.

17 Q You didn't contemplate in those RRI's but maybe that  
18 won't be in the best interest of creditors, so I'll take ten  
19 cars out? Did you do something like that?

20 A Well, as part of -- as I've indicated, as part of the  
21 development of the reinvestment initiatives, the sources of  
22 cash to undertake the reinvestment initiatives is a key  
23 consideration. We would not put together a plan where there  
24 was not cash available, and as part of the overall plan of  
25 adjustment, insuring that there's adequate cash there to

1 effectuate these reinvestment initiatives is a big part of  
2 it, which gets into best interest of creditors.

3 Q So at the end of the day, is the Court to understand that  
4 these RRI's, in fact, are colored by what they would cost?  
5 That's what you're saying, correct, that there might be more  
6 that you would want to do? You just thought it was in the  
7 best interest of creditors not to do more?

8 A There is certainly always more. I would say, based on  
9 the condition of the city, I'm sure people could come up with  
10 a lot of additional initiatives to spend money on, but there  
11 are constraints as to what cash is available to spend, and so  
12 that certainly does factor into the reinvestment initiatives.

13 Q Now, you were aware that the city had debts in June of  
14 2013 when you came up with the report that suggested 1.25  
15 billion; correct?

16 A Yes.

17 Q And you weren't constrained by the fact that those debts  
18 existed to increase your RRI's subsequently in July of 2014,  
19 as you mentioned, to 1.7 billion; correct?

20 A Just to clarify, there are two parts to that question.  
21 Number one, the \$1.7 billion is the gross investment. As  
22 we've gone through earlier in my testimony today, after you  
23 take into account the cost reductions and revenue  
24 initiatives, that's about \$877 million, so the 877 really  
25 compares to the \$1 million back in 2013, but the other part

1 of it is the whole purpose for making the proposal to the  
2 creditors is that the needed investment -- reinvestment was  
3 not there. The funds for the reinvestment was not there  
4 absent some sort of restructuring.

5 Q Right. I understand what you're saying. So that it's  
6 clear for the Court, your decisions about what are in these  
7 RRI's is based on what you think is in -- necessary to meet a  
8 level of service that was adequate and where possible to get  
9 cost reductions and where possible to have some revenue  
10 generation; correct?

11 A Yes.

12 Q Okay. So based on those three goals that you set, you  
13 set them prior to the June 2013 report; correct?

14 A We continue to refine those items. As an example, in  
15 June of 2013, we had identified approximately \$249 million in  
16 revenue initiatives, and as you saw earlier, we now have \$483  
17 million in revenue initiatives, so we did not stop our  
18 efforts at all in June of 2013.

19 Q Nor am I suggesting that you did, but what I want to  
20 understand is when you suggest that in taking into account  
21 the RRI's that you were proposing in June of 2013, 1.25  
22 billion seemed fine for you given the level of debt that the  
23 city had in June of 2013; correct?

24 A When you say it seemed fine to me, clearly it would not  
25 have been able to get undertaken without some sort of

1 restructuring based on the structural deficit that existed  
2 within the city in June of 2013.

3 Q And that restructuring was part of the report that was,  
4 in fact, submitted; correct?

5 A That was the proposal to creditors.

6 Q And those refined RRI's then were included in what is now  
7 the RRI's that are attached to this plan; correct?

8 A Yes, sir.

9 Q And in that instance, the only thing -- the goals were  
10 still to do the three things that we've discussed; correct?

11 A Yes, sir.

12 Q The goals remained the same?

13 A Yes.

14 Q Okay. Now, moving to the pension area, Conway MacKenzie  
15 was tasked by the city to understand the city's pension  
16 obligations; correct?

17 A Yes.

18 Q And, in fact, you personally worked on understanding  
19 those pension obligations, as you testified earlier; correct?

20 A Yes.

21 Q And in terms of pension, there was a view espoused by  
22 some that if anyone tried to touch accrued pension benefits,  
23 that the city would start losing employees. Have you heard  
24 that?

25 A I'm sure I've heard that statement throughout the last

1 year and a half, yes.

2 Q Mr. Moore, you served as an expert in other municipal  
3 bankruptcy cases; right?

4 A Yes.

5 Q And you've given testimony on the issue of pensions;  
6 correct?

7 A Yes.

8 Q Now, in connection with the City of Detroit, you haven't  
9 seen that happening, have you, that employees are starting to  
10 leave because people are talking about touching their  
11 pensions; correct?

12 A Other than a time in -- I believe it was in either May or  
13 June where people had received some incorrect information  
14 that caused a short spike in attrition, the attrition levels  
15 really have not changed to any significant levels.

16 Q Okay. Now, one last question because I'm curious about  
17 this other issue that you were addressing earlier. In  
18 connection with that excess earnings payout that you referred  
19 to earlier, the ASF excess earnings issue, you had mentioned  
20 the ten-year period, and you explained why, and you had  
21 mentioned a percentage that you applied, but you mentioned a  
22 cap of 20 percent. Why did you come up with a cap of 20  
23 percent?

24 A That was part of the negotiated settlement.

25 Q And I don't know if you can testify about it, but what

1 was the reasoning behind it?

2 MR. HAMILTON: Your Honor, I'm going to have to  
3 object to that. I think that's covered by the mediation.

4 THE COURT: If you can answer the question without  
5 disclosing what happened in mediation, I'll permit you. If  
6 you can't, then you shouldn't answer the question.

7 THE WITNESS: Unfortunately, your Honor, that is  
8 part and parcel of the mediation.

9 MR. SOTO: No further questions, your Honor.

10 THE COURT: All right. Who's next, please?

11 CROSS-EXAMINATION

12 BY MS. QUADROZZI:

13 Q Good afternoon, Mr. Moore.

14 A Good afternoon, Ms. Quadrozzi.

15 Q Sir, you first started working on DWSD in July of 2013;  
16 correct?

17 A Yes.

18 Q And I believe you testified that you developed a ten-year  
19 business plan or a set of projections; correct?

20 A For DWSD.

21 Q Now, when were those plans completed?

22 A We published those approximately September 30th and  
23 presented them -- I think it was October 2nd of 2013.

24 Q So you worked on those projections for about three  
25 months?

1 A It was about two and a half months.

2 Q Now, sir, just so the record is clear, you're not  
3 offering any expert opinion about whether or not DWSD can  
4 achieve those projections; correct?

5 A Correct.

6 Q And fair to say there is nothing in your expert report  
7 that provides any opinion at all with respect to DWSD  
8 matters; correct?

9 A I think that's correct.

10 Q Now, you talked a little earlier about the calculation of  
11 the proposed pension payment, and I just want to make sure  
12 that I understand what role you did and did not play in  
13 connection with that. And you said it was made up of three  
14 items, so let's take the \$20 million professional fee first.  
15 You didn't do any calculations that yielded that number;  
16 correct?

17 A I reviewed the calculations, and there are multiple bases  
18 on which that calculation is made. And I also assessed the  
19 reasonableness, spoke specifically to Ernst & Young about the  
20 bases used for the allocation.

21 Q And I appreciate that, but my question was a little  
22 different, which is you didn't do any of the calculations  
23 that yielded that number, did you?

24 A I did them on my own to verify what was on the schedule  
25 that I reviewed.



1 MS. QUADROZZI: Your Honor, I'd like to give the  
2 witness a copy of his deposition, if I may, please.

3 THE COURT: Sure.

4 THE WITNESS: Thank you.

5 BY MS. QUADROZZI:

6 Q Mr. Moore, do you recall having your deposition taken in  
7 July of this year, so not the December one?

8 MR. HAMILTON: Your Honor, at this point I'm going  
9 to object. He's here on the stand now. If she's not going  
10 to impeach a prior statement, I'm not sure why we're talking  
11 about what was in his prior deposition.

12 THE COURT: Is your purpose impeachment?

13 MS. QUADROZZI: Yes, your Honor.

14 THE COURT: Then give it a try.

15 BY MS. QUADROZZI:

16 Q And just to be clear, I handed you copies. You were  
17 deposed on two days in July. Do you remember that?

18 A Yes, ma'am.

19 Q Okay. So the pages are numbered consecutively if that  
20 helps you, so I'm going to ask you about something that  
21 happened in the 300's. That happens to be the second day of  
22 your deposition. Do you remember having that deposition  
23 taken, sir?

24 A Yes, I do.

25 Q And do you remember being asked the question -- I

1 apologize -- on page 322 of -- actually, it begins on page  
2 321 of your deposition,

3 "Question: And what are -- what's the  
4 composition of the 20 million number? How does it  
5 break down?

6 Answer: While I did not prepare that  
7 calculation, I reviewed it, and so I understand that  
8 it is based on a total budgeted amount of  
9 professional fees of 130 million and four different  
10 potential allocation bases."

11 And then the question -- the answer continues, and  
12 the question at the bottom of that is, "And you did not do  
13 that work?" And your answer is, "No." Do you remember being  
14 asked that question and giving that answer?

15 A Yes, ma'am, and I think that's --

16 MR. HAMILTON: Your Honor, I'm going to have to  
17 object. I don't think this impeaches any of his testimony.

18 THE COURT: It is arguably inconsistent. I'll  
19 permit it.

20 BY MS. QUADROZZI:

21 Q Sir, did your team members do any of the calculations  
22 that surrounded that 20 million?

23 A Just to clarify, Ms. Quadrozzi --

24 Q Your counsel is welcome to get up and ask for any  
25 clarification, but I'd appreciate if you could just answer my

1 question, and that is did your team do any calculations that  
2 yielded that number?

3 A I never had a chance to answer your prior question, and  
4 that's what I wanted to answer.

5 Q And your counsel is more than welcome to stand up and  
6 have you go ahead and elaborate on that, but this is a kind  
7 of specific thing that happens when you're being cross-  
8 examined, and it's called impeachment. And I am entitled to  
9 get an answer to my -- the next question, which was did your  
10 team do any of those calculations?

11 THE COURT: Please just answer that question.

12 THE WITNESS: No, not the original calculation --

13 BY MS. QUADROZZI:

14 Q Thank you.

15 A -- which is the issue.

16 Q Now, sir, it's fair to say that number is not based on  
17 time allocated to -- specifically time allocated to DWSD  
18 matters; right?

19 A The four bases do not include a specific time element,  
20 no.

21 Q And you're not here offering an expert opinion as to  
22 whether or not that 20 million professional fee is correctly  
23 apportioned; right?

24 A That's correct.

25 Q Now, sir, you also talked about a second component of the

1 \$428 million, and that was the 6.75 discounted interest rate;  
2 correct? You remember that?

3 A The contributions that would be necessary for the  
4 unfunded liability using a 6.75-percent assumed rate of  
5 return, yes.

6 Q Now, that was the product of negotiation, correct, that  
7 rate?

8 A Yes.

9 Q So, in essence, that was a settlement between the  
10 retirees and the city; correct?

11 A That was contained within settlements with the Retiree  
12 Committee as well as the Retirement Systems.

13 Q Sir, did anyone at DWSD ask to pay the -- and I  
14 apologize. I'm now turning to the nine-year component of  
15 that 428. Did anyone at DWSD ask to pay the 428 million over  
16 a nine-year period as opposed to a longer period of time?

17 A Could you clarify what you mean by "ask to pay it"?

18 Q Did the DWSD management or its consultants request that  
19 the amount be paid over nine years as opposed to a longer  
20 period of time?

21 A Not that I recall.

22 Q Did anyone at DWSD express to you a preference to pay it  
23 over a longer period of time by issuing bonds?

24 A Not that I recall.

25 Q Now, sir, I just want to ask you one additional

1 question -- series of questions. I thought that I heard you  
2 testify towards the end of your direct that to the extent  
3 that the DWSD pension payments resulted in a funding that  
4 exceeded a hundred percent, that a -- one possible result was  
5 that a rebate to DWSD would be considered. Did I -- am I  
6 getting that right? Did you testify to that?

7 A I did not use the word "rebate," no.

8 Q Did you testify that there would be a rebate, a return, a  
9 refund, in some fashion a return to DWSD amounts paid in  
10 excess?

11 A Specifically what I indicated is that if, based on the  
12 contributions that DWSD made and then based on actuarial or  
13 investment return variances that the DWSD division of GFS was  
14 overfunded, meaning greater than a hundred percent funding,  
15 that one option would be that the city's general fund could  
16 reimburse DWSD through contributions to the GRS system or  
17 directly and an accounting allocation within the GRS system.

18 Q Now, when you were -- is that a possibility that's come  
19 up between the time of your deposition and the time of your  
20 trial testimony?

21 A Yes. My understanding is is that has come up during that  
22 time.

23 Q So when you previously testified that you didn't think a  
24 rebate would be likely, that was true then, but now you think  
25 it might be likely?

1 THE WITNESS: Your Honor, this gets into a mediation  
2 issue.

3 THE COURT: Then don't answer.

4 MS. QUADROZZI: I don't have any further questions.

5 CROSS-EXAMINATION

6 BY MR. NEWMAN:

7 Q Good afternoon, Mr. Moore. Max Newman on behalf of Wayne  
8 County. You may have testified to this in your direct, but  
9 what is the total excess payment amount on the retiree system  
10 that you -- I think you testified that it started occurring  
11 in the early 1970s; correct?

12 A The practice -- the annuity savings fund accounts were  
13 part of the 1973 pension plan. The practice of paying out  
14 excess interest appears to have begun in the mid-1980s.

15 Q And do you have a sense -- and that excess interest was  
16 paid out in two different ways, correct, one through the  
17 increase of the ASF accounts and the other through the 13th  
18 check; is that correct?

19 A I would use the words extra or distributions. Interest  
20 relates to the annuity savings fund accounts. 13th checks  
21 are not really interest.

22 Q But they also reflected an adjustment to the payments to  
23 the pensioners resulting from interest rates higher than  
24 those anticipated in the actuarial estimates for the  
25 retirement fund; correct?

1 A Excess distributions from the pension assets, yes.

2 Q So what is the total excess distribution amount from the  
3 mid-'80s to the present? Do you know?

4 A I don't have that number.

5 Q You mentioned at one point in your testimony a figure of  
6 a billion eight; is that correct?

7 A That is --

8 Q Or a billion -- excuse me -- 1.92 billion.

9 A That's an amount that was calculated by Mr. Esuchanko  
10 based on his analysis that was attached to the 2011 city  
11 council memo.

12 Q And so that would be from the time frame of the mid-'80s  
13 to 2011; correct?

14 A That actually specifically went until 2008.

15 Q Okay. So mid-'80s to 2008?

16 A Yes.

17 Q And do you know -- well, the Court asked you about a  
18 dollar for dollar increase, and then the Court asked a  
19 question about really with compound interest it would be more  
20 than a dollar for dollar, correct, to the UAAL; correct?

21 A Yes.

22 Q And do you know if that \$1.92 billion figure was  
23 compounded or not?

24 A It was compounded.

25 MR. NEWMAN: That's all I have, your Honor.

1 CROSS-EXAMINATION

2 BY MS. O'GORMAN:

3 Q Good afternoon. My name is Debra O'Gorman. I represent  
4 Macomb County through its public works commissioner. Now,  
5 are you aware that the city has been looking for ways to  
6 monetize the DWSD?

7 A Yes.

8 Q And when you became involved in looking at DWSD issues,  
9 that was the purpose for which you were brought in; correct?

10 A Yes. The development of the financial projections was  
11 specifically to be part of evaluating alternatives for DWSD.

12 Q And by monetization, is it accurate to say that that  
13 means for the city to realize value in some fashion from the  
14 DWSD; correct?

15 A I think that's a fair statement, yes.

16 Q And you're not expressing any opinion on the legality or  
17 propriety of such an effort?

18 A Correct.

19 Q Do you recall when you were shown Exhibit 583? Do you  
20 have that in front of you? It's the chart entitled "Sources  
21 and uses for reinvestment initiatives."

22 A I certainly remember the chart, but I don't have it in  
23 front of me.

24 Q You were asked about a line that read "Revenue stream  
25 from DWSD, no transaction," and there's a \$454.8 million



1 value. Do you recall that number?

2 A Yes, ma'am.

3 Q So does this reflect that the DW -- the city was looking  
4 to the DWSD to fund its reinvestment initiatives; correct?

5 A No. Actually, those are reimbursements to the general  
6 fund for amounts that are paid by the city for certain items.

7 Q Such as?

8 A As we covered in my direct, in addition to the \$428  
9 million for pension contributions, there are also items for  
10 retiree healthcare, for pension obligation certificates, and  
11 the SWAPs. That's the DWSD portion of those liabilities.

12 Q And the city needs that portion from the DWSD to make its  
13 reinvestment initiatives work; correct?

14 A I think that those are two separate issues. Those are  
15 amounts that are going to be refunded or reimbursed to the  
16 general fund from DWSD. Now, if DWSD didn't reimburse the  
17 city, that would be a completely separate issue, but clearly  
18 those -- all of those funds on that schedule are key for all  
19 of the uses.

20 Q So if these funds didn't come in from the DWSD, the  
21 reinvestment initiatives, as they're currently proposed,  
22 wouldn't work on the numbers; correct?

23 A Well, we would have to look at all of the uses of that  
24 cash, not necessarily the reinvestment initiatives.

25 Q And just going back to the nine-year figure, you said you

1 participated in the decision to amortize the DWSD share of  
2 the pension contribution over nine years instead of a longer  
3 period; correct?

4 A Just to clarify, you said the DWSD share of the pension  
5 contribution. This is DWSD's unfunded pension liability, not  
6 its share of the contribution, so it's putting the  
7 contributions for DWSD's unfunded liability over a nine-year  
8 period.

9 Q Is any other city department being asked to make such  
10 contributions to unfunded liability over a nine-year period?

11 A When you say "such contributions," what do you mean by  
12 that?

13 Q Contributions to unfunded liability.

14 A There are other contributions that are being made by  
15 various city departments. There are no other departments for  
16 which -- or divisions, I should say, for which a -- there is  
17 a targeted 100-percent funding ratio at 2023.

18 Q Do you know whether Milliman recommended the nine-year  
19 amortization period for the DWSD's share of the pension UAAL?

20 A I don't believe that they recommended it, no. I don't  
21 think that they said anything either way as it relates to the  
22 time period.

23 Q Do you know if anyone solicited their input on that  
24 question?

25 A I don't recall.

1 Q Isn't it true that the nine-year period was selected  
2 because the city needed those funds in that time period in  
3 order to fund its reinvestment initiatives?

4 A Well, actually I had indicated that response before.  
5 There were two factors. Number one, there's certainly a cost  
6 of capital element to it. The sooner that can be repaid  
7 because of DWSD's cost of capital, the more beneficial it is  
8 to the DWSD system. The second part of that is it is part of  
9 the negotiated settlements. That facilitates the negotiated  
10 settlements.

11 Q The settlements negotiated with the Retirement Systems  
12 and the Retirees' Committee?

13 A Certainly. That's a big part of it.

14 Q But no one in the DWSD management requested that the  
15 DWSD's share of the UAAL be funded over nine years instead of  
16 a longer period; correct?

17 A Not that I recall.

18 Q Did you take into account the what I would call  
19 intergenerational concerns, the fact that ratepayers in the  
20 next nine years would be asked -- ratepayers of the DWSD  
21 would be expected and asked to pay rates that would allow for  
22 the payment of the UAAL over the nine years and ratepayers in  
23 the future would not be asked to make that same contribution?  
24 Was that considered at all?

25 A It is a consideration here, and specifically this is an

1 unfunded liability as of today, so it's an amount that should  
2 have been paid in the past, and it wasn't, and so obviously  
3 the sooner that that can be repaid, the closer it can be put  
4 to when the liability was incurred.

5 Q Now, we talked about the 6.75-percent negotiated rate of  
6 return. Do you remember your testimony on that?

7 A Yes, ma'am.

8 Q And all other things being equal, would a higher rate of  
9 return mean a lower amount of DWSD UAAL contributions?

10 A I'm sorry. Can you just state the question one more  
11 time?

12 Q If a higher rate of return was selected, would that mean  
13 that the DWSD contributions to the UAAL would be lower?

14 A The use of a higher rate of return on a present value  
15 basis creates a lower liability, and, therefore, there's a  
16 lower unfunded amount, and so the contributions necessary if  
17 you're using the same time period would be lower if you use a  
18 lower rate of return.

19 Q You were asked before about the \$20 million in  
20 professional fees that were allocated to the DWSD. Do you  
21 recall that?

22 A Yes.

23 Q Do you know if any effort was made to ascertain the  
24 actual cost of restructuring fees that related to DWSD  
25 matters?

1 A I'm only aware of this calculation and the bases that are  
2 included in that calculation.

3 Q And that did not include any determination of the actual  
4 cost of the services that were rendered on behalf of DWSD  
5 issues; correct?

6 A That calculation does not include anything beyond those  
7 bases.

8 MS. O'GORMAN: Okay. Thank you.

9 CROSS-EXAMINATION

10 BY MR. FIELDS:

11 Q Good morning, Mr. Moore. My name is Jamie Fields. I  
12 have a few questions for you today.

13 A Yes, sir.

14 Q On your direct testimony, you mentioned that you were  
15 retained in the Stockton case; is that correct?

16 A Yes, sir.

17 Q Who retained you?

18 A I was retained by Jones Day on behalf of Franklin Funds.

19 Q Very well. Have you ever in any of your prior  
20 engagements restructured a police department personally?

21 A When you say "restructured" --

22 Q Been involved in restructuring a police department.

23 A No.

24 Q To your knowledge, has Conway MacKenzie ever been  
25 involved in restructuring a police department?

1 A Not that I'm aware of.

2 Q Have you ever been personally involved in the --  
3 restructuring a fire department?

4 A No.

5 Q Have you ever been personally involved in a blight  
6 remediation plan?

7 A Not to the extent that exists with the City of Detroit.

8 Q Now, in every budget there's a lot of unforeseen  
9 contingencies, things that can happen to throw off  
10 projections. Are you familiar with the Government Finance  
11 Officers Association recommendations for how much of a  
12 cushion the city should maintain?

13 A Yes, sir.

14 Q And what would that be?

15 A I believe that the GFOA recommends about a two-month  
16 contingency.

17 Q So that would be 16.7 percent, approximately, which is  
18 two months, as compared to what Detroit has in their plan,  
19 which is about three days or one percent.

20 A Is that a question?

21 Q Yes.

22 A Actually, the GFOA, while it references two months, the  
23 basis of the two months is not always clear, and the City of  
24 Detroit actually in its minimum cash balance utilizes two  
25 months of employee-related expenditures, and so the

1 approximately \$80 million minimum cash balance ties very  
2 closely to the GFOA standards.

3 Q Okay. Now, in the case of Stockton, you provided them  
4 four scenarios. One was five percent, one was ten percent,  
5 one was fifteen percent, and one was 16.7 percent. Does  
6 Detroit equal the minimum of five percent that you provided  
7 Stockton?

8 A Actually, just to clarify, sir, that was Stockton that  
9 actually provided those different levels.

10 Q Okay. Did you provide scenarios on how much money  
11 Franklin would be able to recoup based on those different  
12 levels?

13 A Yes. Based on those different levels that the City of  
14 Stockton used, what Franklin would recover.

15 Q Now, the city's general fund budget is 1.1 billion,  
16 approximately.

17 A Between a billion and a billion one, yes.

18 Q Okay. And the police department is approximately 50  
19 percent of that, correct, or public safety?

20 A Public safety together, yes.

21 Q So, therefore, public safety was -- I would assume would  
22 be one of the top priorities. If you're reviewing 35  
23 departments, I'm sure you didn't put the same analysis into  
24 every department.

25 A That's correct.

1 Q Now, your report -- your expert report included  
2 information that you got from the police department; correct?

3 A Yes, sir.

4 Q You also included information that you got from other  
5 sources, I assume.

6 A Yes.

7 Q Did you include your -- in your work papers where the  
8 specific items of all the data came from?

9 A Yes, sir.

10 Q You first had to examine if the police department was  
11 functioning correctly. I'm sure that was your first task.

12 A What do you mean by "correctly"?

13 Q Well, before you can set up benchmarks of where you want  
14 to go, you have to know where you've been, so you have to  
15 assume to look at the department as it is now or when you got  
16 there.

17 A As I indicated, that was -- one of the steps was  
18 assessing -- reviewing and assessing the department to  
19 identify deficiencies.

20 Q Okay. You also said that the police department -- public  
21 safety technology lacked meaningful reporting; is that  
22 correct?

23 A Yes.

24 Q You also said that public safety technology had limited  
25 querying ability; is that correct?



1 A I'm sorry. Can you restate --

2 Q Limited querying ability, that they couldn't give you  
3 information.

4 A I didn't say that it had limited querying ability, but  
5 certainly there are significant limits to the amount of  
6 information that is tracked and maintained by the city right  
7 now.

8 Q Is not the information -- or your recommendations only as  
9 good as the information you received?

10 A I'm not sure that I understood that question.

11 Q I mean there's a saying in computer tech, garbage in,  
12 garbage out, so basically if the information you received was  
13 deficient or not based on good data, your recommendations  
14 couldn't have been accurate, could they?

15 A Certainly I don't mean to turn around and be the  
16 questioner here, but what specific data are you referring to  
17 that would be bad data?

18 Q Well, let me put it this way. Let me repeat the  
19 question. You've got data on crime stats from the  
20 department -- police department. Did you get it directly or  
21 did you get it from the Uniform Crime Reports?

22 A We actually received both.

23 Q Okay. Now, the Uniform Crime Reports, the FBI gets their  
24 data from the police department; correct?

25 A Yes, sir.

1 Q So if they're putting in bad data or they're comparing  
2 apples to oranges, wouldn't the information that they spit  
3 out or the data you get be incorrect?

4 A That was one of the items that I referenced earlier in my  
5 direct is that there are certainly issues even related to  
6 UCR. Different departments report data in different ways.  
7 You have to take all of that with a grain of salt.

8 Q But if any of the information you received was wrong,  
9 that would change your recommendations, wouldn't it?

10 A If I received incorrect information and that information  
11 was not identified as being incorrect, it could have an  
12 impact on a recommendation.

13 Q You mentioned that -- in your report that people pay  
14 taxes, so you had to do comparables not only with national  
15 cities, but people can move to Southfield or Warren, so you  
16 had to comparables with local cities because they're all  
17 competing for the same taxpayer, so to speak. So are you  
18 saying by that that people -- that there's a linear  
19 relationship between taxes paid and the type of services  
20 people should receive?

21 A No. I've never said that.

22 Q So just because Detroit pays the highest taxes, they are  
23 not entitled to the best services?

24 A I didn't say that either.

25 Q I said it. One of the DPD's goals is five-minute

1 response time. Are citizens entitled to a five-minute  
2 response time?

3 A What do you mean by "entitled"?

4 Q Well, I mean people are entitled to, you know, certain  
5 benefits for certain things. I wonder if -- let me rephrase  
6 it. If someone lives in a city that gives five-minute  
7 response time and the adjoining suburb has a seven-minute  
8 response time, does that make the seven-minute response time  
9 in that city inadequate services?

10 A That's a hypothetical question, and I would have to  
11 understand more information related to that seven minutes --

12 Q Okay.

13 A -- to be able to say whether it's inadequate.

14 Q As long as we're talking about that, I heard during your  
15 direct testimony that you're now -- you've now changed your  
16 mind about the 11 minutes being a national average, is that  
17 correct, or are you still --

18 A I haven't changed my mind on that, no.

19 Q Okay. Do you believe there's a national average for  
20 police response time?

21 A No. It's well-documented that there is not a -- within  
22 police and what I said as it relates to the fire department,  
23 the NFPA has much better information as it relates to  
24 standards. Within policing it's very difficult to find what  
25 you would refer to as the same types of standards with the

1 NFPA, so as it relates to a national average, many people  
2 refer to national averages, and I've read many publications  
3 that indicate they believe that there are national averages,  
4 but there is not a specific national average for a response  
5 time.

6 Q Now, in your direct you talked about a study that had 11  
7 minutes response time referencing Atlanta, and was that the  
8 American Police Beat magazine article that you had in your  
9 expert report?

10 A I believe that's the one, yes.

11 Q Okay. Are you aware that the American Police Beat is an  
12 open forum that anybody can write in opinions?

13 A Yes, sir.

14 Q Okay. So -- and they never discussed Detroit in the  
15 American Police Beat, did they?

16 A That's correct. As I indicated, this is based on  
17 Atlanta, which is -- has a number of comparable aspects with  
18 Detroit.

19 Q Now, you also said on direct that you helped the city put  
20 together their action -- or the Detroit Police Department put  
21 together their plan of action.

22 A Yes, sir. Chief Craig's plan of action.

23 Q Chief Craig says in his plan of action the only thing  
24 needed in a police department is leadership and  
25 accountability. Do you agree?

1 A That's the chief's opinion, so you'd have to ask him on  
2 that.

3 Q Okay. But you assisted in putting it together, so were  
4 you familiar with that statement he made?

5 A I don't recall that specific statement. That's nearly a  
6 hundred-page document.

7 Q In the DPD action plan, it states that 42 percent of all  
8 calls for Detroit are classified as a priority one whereas  
9 New York is only 10 percent of their calls are classified as  
10 priority one's. Are you familiar with that?

11 A Yes, I am.

12 Q So, therefore, the -- during the eligibility trial, you  
13 mentioned a 58 -- or it came out a 58-minute response time in  
14 Detroit. That was not accurate, was it?

15 A Well, actually, that specifically is how the city was  
16 tracking its response time at that time, so the city's own  
17 data indicated 58-minute response time. The city has since  
18 then refined how it defines priority one calls.

19 Q And what is a priority one call?

20 A Generally speaking -- and, again, this is an area where  
21 there are not specific definitions, but in a number of  
22 sources it indicates a priority one call would relate to a  
23 life-threatening situation.

24 Q Okay. So a police department can manipulate their  
25 response times by reducing the amount of priority one calls

1 they -- or what they classify as a priority one call, can't  
2 they?

3 A That's what I indicated earlier.

4 Q How would you -- let me ask you a hypothetical. How  
5 would you -- what would you consider to be response time as a  
6 citizen? This is not as an expert but as a citizen. Do you  
7 think its response time should be counted -- the citizens  
8 believe it's from the time the scout car gets the run or from  
9 the time that you call 911, pick up the phone and call 911?

10 A Well, I certainly can't speak for all citizens, but, as I  
11 indicated in my direct testimony earlier today, some people  
12 measure it from the time that the call for service is made.  
13 Some people measure it from when the dispatch gets it. Some  
14 people measure it from when the patrol officer receives that.  
15 And so there are a variety of ways of measuring response  
16 time.

17 Q I understand there are a variety of ways of measuring,  
18 but I'm asking you personally if you called -- you know, it  
19 would be similar to calling a pizza delivery that promised a  
20 pizza in 30 minutes. Is it the minute the police -- the  
21 pizza guy goes out the station -- the store, the retail  
22 place, or is --

23 THE COURT: I'm going to have to interrupt you and  
24 say that the witness' personal --

25 MR. FIELDS: Okay.

1 THE COURT: -- expectation as to this is not  
2 relevant to this trial.

3 MR. FIELDS: All right.

4 BY MR. FIELDS:

5 Q Did you look at any research or studies as far as whether  
6 rapid response to police calls are effective, whether or not  
7 they lower crime?

8 A Could you please define what you mean by "rapid response  
9 to police calls"?

10 Q For example, a five-minute response time. That's what  
11 the chief's goal is. Would that -- is there a linear  
12 relationship between a five-minute response time and lowering  
13 crime?

14 A Response time definitely plays a role in a number of  
15 aspects. The public perception is one of them. And this  
16 also gets into other aspects of measuring how the department  
17 is performing, and one of those is the problem-solving  
18 aspect, so presumably the sooner someone responds, the better  
19 their ability to address the situation.

20 Q Okay. Last week -- changing the subject a little bit,  
21 last week the media reported that the city was anticipating  
22 \$55 million in property taxes, and they only received \$6.7  
23 million. How does -- did that miscalculation have any effect  
24 on your projections?

25 A I'm not aware of the article or what you're referring to.

1 Q Is there anything that requires the city -- you say you  
2 have a billion seven in reinvestment and restructuring. Is  
3 there anything that requires the city to spend that money for  
4 what it's intended for?

5 A What do you mean? Could you clarify what you mean by "is  
6 there anything that requires it"?

7 Q For example, you have 150-some million dollars for  
8 technology. What if the mayor a year from now said, "You  
9 know what? We don't need the technology. We need it for  
10 something else"? Could he do that?

11 A This gets into aspects of governance, including the  
12 Financial Review Commission, of which I'm not making any  
13 opinions.

14 Q Did you have occasion to look at the city council  
15 operations?

16 A Yes, I did.

17 Q And did you recommend that city council be cut  
18 considerably?

19 A What do you mean by "cut considerably"?

20 Q Well, they had four to eight staff members. I think you  
21 recommended one to one. You said they had 115 employees.  
22 You recommended 75 or 78 of them being cut.

23 A Yes, sir.

24 Q Okay. Did you read the media reports last week where the  
25 city council's budgets were increased?



1 A I don't recall seeing that, but I do know that the city  
2 council budget is down significantly from the levels that I  
3 was reporting on in April of 2013.

4 Q Did you do any -- you have some comparable cities. Did  
5 you compare the number of police officers per capita with  
6 other cities?

7 A Yes, sir.

8 Q Okay. Did you compare the number of police officers per  
9 square miles with other cities?

10 A Yes, sir.

11 Q Now, one of the reductions the chief wants is a ten-  
12 percent reduction in crime, I believe. Is it possible for a  
13 ten-percent reduction in crime to occur but yet crime goes up  
14 because per capita crime goes up?

15 A That sounded like a math question. Maybe you could  
16 restate it.

17 Q All right. There's two ways of measuring relative crime  
18 in cities. One is raw numbers, and it's what chiefs over the  
19 years have done, and it's been very successful, especially in  
20 the City of Detroit because if you're looking at raw numbers,  
21 when you go from a million eight people to 600,000-some  
22 people, crime drops, but when you look at the per capita  
23 crime, that doesn't drop. So is it more important to measure  
24 the strict reduction in crime or a per capita crime basis?

25 A I'm not -- I don't have an opinion as to which is more

1 important.

2 Q Are you familiar with the -- one of the things you said  
3 in your expert report was -- or your declaration, I believe,  
4 was that one of the things that contributed to the pension  
5 systems unfunding was the city's failure to make their normal  
6 required contributions; is that correct?

7 A Yes, sir.

8 Q So basically is the proposal not to pay any normal  
9 contributions out of the general fund for the next ten  
10 years -- or till 2023, is that a way to correct?

11 A No, sir. That's not correct.

12 Q Okay. So won't that make the problem worse by continuing  
13 not to pay?

14 A I just answered that as not correct. Your statement that  
15 the city is not going to pay any normal costs of --

16 Q From the general fund.

17 A Correct. That is not correct.

18 Q Okay.

19 A The city has moved to hybrid plans going forward as  
20 effective approximately July 1st of 2014, and the cost  
21 associated with benefits that are accrued under those hybrid  
22 plans, which are both the GRS and PFRS, are funded going  
23 forward.

24 Q Okay. I understand that. That's for actives. Now, let  
25 me talk about retirees for a minute. When a person retires,

1 if things work like they're supposed to be, if the city was  
2 making their normal cost contributions, when a person  
3 retires, isn't his pension paid for at the time he retires?

4 A When you say "pension paid for," what specifically do you  
5 mean?

6 Q His pension credits. The city is required by Michigan  
7 law to fund so many pension credits a year for the year  
8 earned, so when an employee retires, if the city had made  
9 their -- kept their commitment, wouldn't that have paid for  
10 their pension?

11 A There are multiple parts of really what you're asking  
12 about there because someone's pension is paid out over time,  
13 so are you asking that the entire amount of benefits that  
14 will be paid over time are funded at that point?

15 Q Well, yes in present day value. I mean present dollars.

16 A Okay. So you're asking is the present value of the  
17 future benefits supposed to be funded at that time.

18 Q Correct.

19 A If an organization funds the normal cost all along,  
20 there's no guarantee that that is going to be funded at the  
21 time that someone retires.

22 Q And it doesn't help matters, does it, if they stop  
23 paying. When did the city stop paying their normal required  
24 contributions, if you know?

25 A For which system?

1 Q For the PFRS.

2 A The city -- I'd have to go back and review the numbers,  
3 but I think after -- I think the city is deficient towards  
4 PFRS -- or was deficient in PFRS after June 30th of 2013 of  
5 around \$50 million, and so they had made -- the city  
6 historically for PFRS made contributions one time per year at  
7 the end of the year, and I believe it was as of the end of  
8 2012 -- it may have been 2011 -- that contribution was not  
9 made. The city started to make payments on a monthly basis  
10 after that, but they were still behind, and then pension  
11 payments were halted again. So, again, I believe it was  
12 around 50 to \$55 million that -- in contributions that had  
13 not been made as of June -- as of the petition date.

14 Q Okay. Just a couple more questions here. Are you  
15 familiar with the DROP plan?

16 A Yes, I am.

17 Q Would you briefly state what the DROP plan is for those  
18 who might not be aware of it?

19 A Sure. The DROP plan, D-R-O-P, stands for Deferred  
20 Retirement Option Plan, and it essentially allows an  
21 individual to retire, in effect, but remain employed.

22 Q Okay. So, in other words, let's say as a hypothetical  
23 round number a police lieutenant makes \$70,000 a year, and so  
24 he could say, "Okay. I'm going to keep working, but I'm  
25 going to retire, and 75-percent of that money, which would be

1 about \$50,000 a year, goes into a separate account for me  
2 that gets interest and also gets COLA payments on top of it.  
3 And when I retire, I can leave with that money." Is that  
4 correct?

5 A I don't think the way that you've described that is  
6 entirely correct.

7 Q Okay. Could you clarify?

8 THE COURT: Why are we asking this --

9 MR. FIELDS: I'm sorry. I'm sorry. I apologize,  
10 your Honor.

11 BY MR. FIELDS:

12 Q Let's put it this way. One of the things you said  
13 contributed to the shortfall was there's a lot of assumptions  
14 that go into calculating pensions and such, and you said  
15 there was a lot of extra money taken out in lump sum payments  
16 that was above the assumptions. Do you remember saying that?

17 A When are you referring to? When did I say that?

18 Q I think you said that in your expert report.

19 A I did not have an expert report really.

20 Q Declaration. I'm sorry.

21 A I probably did say that in my declaration from July of  
22 2013.

23 Q Okay. And what happens in the DROP plan is that people  
24 who retire, they keep working, but all of a sudden they take  
25 out all their money, so there was -- the assumptions when

1 they came up with the DROP plan was that they would do a --  
2 there'd be 300 members in the DROP plan. If the city  
3 exceeded their assumptions -- in other words, if more people  
4 went into the DROP plan -- wouldn't that cause a problem?

5 A I'm not sure that --

6 Q Rephrase that. I confused myself on that one. Let me  
7 ask you a lot of cities around the country are dropping the  
8 DROP plan because they found out it was not cost-neutral. It  
9 was too expensive. Are you familiar with those?

10 A Whether a DROP plan is cost-neutral or there's a cost to  
11 a municipality, I certainly have had that conversation  
12 numerous times.

13 Q Okay. Is the City of Detroit -- did you do any analysis  
14 or are you aware of Milliman doing any analysis that shows  
15 that the cost -- that the DROP plan in Detroit is cost-  
16 neutral?

17 A Yes. Milliman conducted analyses, and there was no  
18 conclusion. The terms of the city's DROP plan did not appear  
19 to be favorable to the city, but it was undetermined as to  
20 whether there was a meaningful cost to the city.

21 Q Do you know how many people are in the DROP plan right  
22 now?

23 A I don't have the number right now. I certainly have seen  
24 that throughout this time. I just don't know the number  
25 right now.

1 Q Six or seven hundred people be outrageous to you or  
2 surprise you?

3 A I would have to see what that number is right now.

4 Q Don't you think that it would -- a program that's that  
5 expensive or at least pays out that much money, that prior to  
6 you coming out with a plan of adjustment you should have  
7 found out if it's conclusively cost-neutral or not? Wouldn't  
8 that be important?

9 A Sir, the PFRS pension plan as part of this plan is  
10 frozen, and so those benefits that have been accrued at this  
11 point are no longer accruing under the defined benefit  
12 pension plan. If someone is in DROP right now, they're in  
13 DROP related to the previous plan. Going forward, there's a  
14 new hybrid pension plan, which has completely different terms  
15 to it.

16 Q How many years can someone be in the DROP plan right now?

17 A I believe that that is five years.

18 Q You also listed that you had reviewed the Manhattan  
19 Institute and the Bratton report as part of doing your expert  
20 report; is that correct?

21 A The work from Manhattan Institute and Bratton Group was  
22 part and parcel of everything that we did with Chief Craig  
23 for the plan of action.

24 Q In your expert report, you listed 226 different documents  
25 and data that you considered in doing your report. How come

1 wasn't the Manhattan Institute or the Bratton report listed?

2 A There was not a specific report. They collaborated with  
3 us on the chief's plan of action.

4 Q And the third and final thing is you also mentioned that  
5 one of the department's priorities is closure rate, and he  
6 wants -- the department's goal is a 70-percent closure rate  
7 for homicides. Did you compare -- and when you give these  
8 numbers during direct, nine percent and twenty-seven percent,  
9 I assume it's all cases in the aggregate.

10 A Yes, sir.

11 Q So it could be a hundred percent for homicides, but it  
12 could be three percent for a less solvable crime like car  
13 theft.

14 A I would have to go back and look at specifically what's  
15 in there because obviously there are many, many different  
16 categories of crime.

17 Q Okay. Did you compare the caseloads for Detroit  
18 detectives, homicide detectives, with other homicide  
19 detectives?

20 A Yes. The plan of action and the staffing that is  
21 included in that is based specifically on a workload  
22 methodology.

23 Q You also mentioned the DRMS computer program. By all  
24 accounts from your direct testimony, I can assume you thought  
25 it was a failure?



1 A I did not mention DRMS in my direct testimony.

2 Q Okay. I'm sorry. I got confused. Are you familiar with  
3 the DRMS?

4 A Yes, I am.

5 Q Okay. Do you consider it a failure?

6 A What do you mean by "a failure"?

7 Q Well, was it obsolete before it got running?

8 A DRMS was first implemented in the mid-'90s. I have not  
9 gone back to evaluate or investigate that implementation. I  
10 know right now DRMS is inadequate as an information system  
11 for the city.

12 Q Do you know how much DRMS cost?

13 A I do not.

14 Q Are you aware that any of the people who were involved in  
15 the DRMS thing are now -- let me rephrase that. Leadership  
16 is important in a city like everything else, but I believe in  
17 your report -- and I agree with it where you said that it's  
18 the upper management, it's the other people that drive it,  
19 it's not just leadership that drive the results. Do you  
20 think that the people who are still involved in some of these  
21 failed projects -- they're still employees for the city, are  
22 they not, many of them?

23 A I don't know who was involved with the original DRMS  
24 implementation. That was almost 20 years ago.

25 Q Are you satisfied with the -- you mentioned the culture

1 of the police department -- or the culture of the city. Are  
2 you satisfied that the city has enough workers or the right  
3 type of workers to carry out the plan or any plan?

4 A What aspect of the plan?

5 Q Implementation, the computer. Let's take computers  
6 first.

7 A Well, the plan specifically contemplates at the peak  
8 point 800 additional employees for the city, and, yes, we  
9 believe that that's the number that is sufficient to carry  
10 out these reinvestment initiatives, but that's 800 additional  
11 employees.

12 Q Okay. My last question here is you mentioned  
13 civilianization in the police department, 250 more civilians  
14 and how much more money would it cost. My understanding is  
15 civilianization was it always saved money. It didn't cost  
16 money. The police department has a budget of probably 300  
17 million.

18 THE COURT: Would you ask a question, please?

19 MR. FIELDS: Yes.

20 BY MR. FIELDS:

21 Q Police department has a budget of about 300 million;  
22 correct?

23 A Yes, roughly speaking.

24 Q Does the police department get to hire their own  
25 civilians?

1 A The police department has its own HR department, yes.

2 Q Okay. So if the police department hires a civilian and  
3 there's layoffs in other departments, is there bumping to the  
4 other departments?

5 A It depends on the union, and I'm not sure how that would  
6 be -- you would have to look at the specific union and what  
7 the new collective bargaining agreement says.

8 Q Okay.

9 A Just to answer, I think, your question, civilianization  
10 would save money if you were replacing a uniformed officer  
11 with a civilian. What's happening here under the  
12 reinvestment initiatives is that those uniformed officers  
13 that are performing clerical or civilian-type duties are  
14 being moved out to patrol duty, and civilians are coming in,  
15 so we have a net pickup in cost because of the addition of  
16 the civilianization.

17 Q Did you compare Detroit's civilianization rate as  
18 compared to sworn officers with any other cities?

19 A Yes. That information certainly is in the analyses. I  
20 can't remember if that was in the plan of action or not.

21 Q And adding these additional people --

22 THE COURT: All right. It's five o'clock now --

23 MR. FIELDS: Okay.

24 THE COURT: -- so we are going to stop. You have  
25 approximately half of your time left. We'll pick this up

1 Monday morning at 8:30.

2 MR. FIELDS: Okay. Thank you.

3 THE CLERK: All rise. Court is adjourned.

4 (Proceedings concluded at 5:01 p.m.)

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I certify that the foregoing is a correct transcript from the sound recording of the proceedings in the above-entitled matter.

/s/ Lois Garrett

September 11, 2014

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Lois Garrett